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**AGRICULTURAL SUBTERMINAL STORAGE
FACILITIES ACT OF 1979**

96-1

HEARING

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BEFORE THE

**SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION**

OF THE

P94-73

**COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY**

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 261

A BILL TO AMEND THE CONSOLIDATED FARM AND RURAL DEVELOPMENT ACT TO AUTHORIZE LOANS FOR THE CONSTRUCTION AND IMPROVEMENT OF SUBTERMINAL STORAGE AND TRANSPORTATION FACILITIES FOR CERTAIN TYPES OF AGRICULTURAL COMMODITIES, TO PROVIDE FOR THE DEVELOPMENT OF STATE PLANS TO IMPROVE SUCH FACILITIES WITHIN THE STATES OR WITHIN A GROUP OF STATES ACTING TOGETHER ON A REGIONAL BASIS, AND FOR OTHER PURPOSES

APRIL 6, 1979

Printed for the use of the Committee on Agriculture, Nutrition, and Forestry

OCT 1979



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AGRICULTURAL SUBTERMINAL STORAGE FACILITIES ACT OF 1979

FRIDAY, APRIL 6, 1979

**U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
*Washington, D.C.***

The subcommittee met, pursuant to notice, in room 324, Russell Senate Office Building, at 9 a.m., Hon. Edward Zorinsky (chairman of the subcommittee) presiding.

Present: Senators Zorinsky and McGovern.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. The Subcommittee on Agricultural Credit and Rural Electrification hearing on the Agricultural Subterminal Storage Facilities Act of 1979 will come to order.

We are here this morning to consider legislation which may provide a means for grain producers and shippers, and the producers and shippers of other bulk agricultural commodities, with the modern storage and delivery systems they must have to effectively compete in both the domestic and export markets. The bill is S. 261, the Agricultural Subterminal Storage Facilities Act of 1979, introduced by my good friend, Senator McGovern, from South Dakota.

It seeks to promote the broad application of the successful pioneer program developed in Iowa for the location and construction of efficient transient grain storage and shipping facilities at strategic points, on both railroad and highway networks.

In doing so, the advantages of both rail and trucking modes would be utilized to best serve the interests of producers and shippers.

The implications of this legislation are wide ranging, and in considering the bill we must face several important facts. First, much of the Nation's rail industry on which our rural economy depends is in a state of operational and financial crisis. Second, a large part of our grain storage and delivery system consists of small and otherwise inadequate country elevators located in lightly traveled, barely usable branch lines. Third, most of the Nation's rail system faces massive restructuring to rid itself of redundant and unproductive trackage. Fourth, nonviable branch lines now serving many small grain elevators will be abandoned in the immediate years ahead, depriving many producers of access to their most efficient means of transportation.

Fifth, the restructuring will occur within the well-established rail industry trend toward long-haul shipment of bulk commodities on a multiple car and unit train basis. And finally, sixth, efforts to improve rail transport of bulk agricultural commodities requires conformance of this trend.

The Agricultural Subterminal Storage Facilities Act provides a way to help achieve this conformance. It would do so by establishing statewide and regional planning and financial assistance programs for the location and construction of highly efficient, temporary storage facilities for grain and other bulk commodities. These facilities would have the capacity to load multiple car and unit trains, trucks, and, where appropriate, barges.

For the most part, these subterminals would be located on rail main lines and on viable branch lines. Small rural storage facilities capable of loading only a few boxcars, and located on light density branch lines, would become satellite storage installations feeding into subterminals.

It should be noted that the bill provides not only for new facilities but for the improvement of existing facilities which are properly located but lack adequate storage and loading capacity.

I want to stress that the planning and financial assistance provided by the bill both depend almost entirely on the initiative of the producers and shippers who would be served by subterminal systems. It is they who would request the States to apply for planning grants from the USDA. It is they who would have first option to own and operate subterminal facilities and to qualify for direct loans and loan guarantees if they are unable to obtain adequate funds at reasonable cost.

Existing small storage facility operators are to be given every reasonable opportunity to participate in the ownership and operation of the subterminals. They could do so as individuals, or in partnership with one another, or with producers. The exact form would depend on the choices producers and shippers will jointly make to establish the systems, and on the recommendations of subterminal planners. Beyond this, existing small storage facilities operators who wish to continue independently are to have access, under equitable conditions, to subterminals so that they, too, can capitalize on the benefits of the total system.

In my estimation, this legislation can go a long way toward assuring us that our rural transportation system, now in a state of transition, will continue to meet the needs of agricultural producers and shippers. It could afford producers greater command of their markets, and equally important, it gives producers and shippers the capacity and flexibility to effectively compete for the best freight rate from both rails and trucks. Moreover, the legislation takes a far-sighted approach to potential problems of our Nation's rural transportation system at a time when deregulation and increased competition are becoming priority goals of national transportation policy.

The legislation anticipates and responds to the inevitable effects of that policy, in order to aid the survival of a viable rural transportation system for American agriculture.

At this point in the record I will insert a copy of S. 261 with an accompanying staff summary of the legislation.

[S. 261 and the staff summary follow:]

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1 That this Act may be cited as the "Agricultural Subterminal
2 Storage Facilities Act of 1979".

3 FINDINGS

4 SEC. 2. The Congress finds and declares—

5 (1) that an adequate system for the efficient tran-
6 sient storage and movement of bulk agricultural com-
7 modities is essential to the overall success of the agri-
8 cultural industry of the Nation, the development of
9 rural areas of the Nation, and the economic stability of
10 the Nation;

11 (2) that the movement and storage of bulk agri-
12 cultural commodities has been seriously and repeatedly
13 impeded by shortages of transient storage facilities,
14 adequate rail rolling stock, and the deterioration of
15 many railroad track beds and rural highways through-
16 out the United States;

17 (3) that the efficient movement and storage of
18 bulk agricultural commodities may be achieved and fa-
19 cilitated by the joint location at strategic points
20 throughout the United States of transient storage facil-
21 ities and multimodal terminal facilities constructed es-
22 pecially for the efficient shipment and receipt of agri-
23 cultural commodities; and

24 (4) that the location of such facilities must be
25 carefully planned to assure maximum benefits to pro-

1 nor of such State or the appropriate agency of such State
2 makes an application therefor as provided in this section.

3 (2) The Secretary may also make such grants available
4 to two or more States acting together to develop a coordi-
5 nated regional subterminal facilities plan (hereinafter in this
6 Act referred to as the "regional plan") for such region.

7 (3) The amount of the grant made under this section to
8 any State, or to any two or more States acting together (as
9 provided in paragraph (2)), shall be proportionate to the
10 amount to which such State, or States acting together, would
11 be entitled for the purpose of implementing an approved
12 State plan or an approved regional plan (as defined in subsec-
13 tion (d)) under the provisions of section 310B(e)(2) of the
14 Consolidated Farm and Rural Development Act (7 U.S.C.
15 1932(e)(2)), except that in no case may the amount of the
16 grant exceed an amount equal to 80 per centum of the cost of
17 preparing the State plan or regional plan, as the case
18 may be.

19 (4) The State or regional plan shall prescribe in detail
20 the actions such State or group of States proposes to take in
21 order (A) to facilitate the efficient movement of bulk agricul-
22 tural commodities from the points of production within such
23 State or region to major market or export points, (B) to pro-
24 vide adequate storage facilities for such commodities between
25 points of production and market, and (C) to provide adequate

1 Such term also means any rail siding, loading, or un-
2 loading facility which can accommodate unit railroad
3 trains or multiple car trains of twenty cars or more and
4 other appropriate transportation modes designed for the
5 transport and storage of bulk agricultural commodities
6 and production materials.

7 (3) The term "bulk agricultural commodity"
8 means any agricultural commodity that can be trans-
9 ported in bulk from the farm where produced and can
10 be temporarily stored in bulk quantities without under-
11 going processing or packaging. Such term also includes
12 any commodity or product that is used by producers in
13 the production of agricultural commodities and that can
14 be stored or shipped in bulk.

15 STATE AND REGIONAL PLANS; PLANNING GRANTS

16 SEC. 4. (a)(1) The Secretary shall, beginning not more
17 than 180 days after the date of enactment of this Act, make
18 financial assistance available to States which make applica-
19 tion therefore, and which otherwise meets the requirements
20 of this section, and further requirements developed by the
21 Secretary for the purpose of assisting such State in the devel-
22 opment of a subterminal facilities plan (hereinafter in this Act
23 referred to as the "State plan") for such State. Assistance
24 under this section shall be made available in the form of a
25 grant. No grant may be made to any State unless the Gover-

1 nor of such State or the appropriate agency of such State
2 makes an application therefor as provided in this section.

3 (2) The Secretary may also make such grants available
4 to two or more States acting together to develop a coordi-
5 nated regional subterminal facilities plan (hereinafter in this
6 Act referred to as the "regional plan") for such region.

7 (3) The amount of the grant made under this section to
8 any State, or to any two or more States acting together (as
9 provided in paragraph (2)), shall be proportionate to the
10 amount to which such State, or States acting together, would
11 be entitled for the purpose of implementing an approved
12 State plan or an approved regional plan (as defined in subsec-
13 tion (d)) under the provisions of section 310B(e)(2) of the
14 Consolidated Farm and Rural Development Act (7 U.S.C.
15 1932(e)(2)), except that in no case may the amount of the
16 grant exceed an amount equal to 80 per centum of the cost of
17 preparing the State plan or regional plan, as the case
18 may be.

19 (4) The State or regional plan shall prescribe in detail
20 the actions such State or group of States proposes to take in
21 order (A) to facilitate the efficient movement of bulk agricul-
22 tural commodities from the points of production within such
23 State or region to major market or export points, (B) to pro-
24 vide adequate storage facilities for such commodities between
25 points of production and market, and (C) to provide adequate

1 receiving, storage and loading facilities for any commodity or
2 product used in the production of agricultural commodities
3 and that can be stored or shipped in bulk.

4 (5) The State plan of any State or regional plan of any
5 group of States shall include the following:

6 (A) An analysis of the trends in the marketing,
7 shipping, storage, and production of bulk agricultural
8 commodities produced in such State or region and the
9 short and long range projections with respect to the
10 marketing, shipping, storage, and production of such
11 commodities in such State or region.

12 (B) A determination, on the basis of the analysis
13 and projections described in clause (A), of the needs of
14 the State or region for subterminal facilities and a de-
15 termination of the most efficient locations for and the
16 handling capacity of such facilities.

17 (C) A program for the continued use of existing
18 on-farm storage facilities located within the State or
19 region and for facilitating the transport of bulk agricul-
20 tural commodities stored on the farm, either to subter-
21 minal facilities or directly to market or export points.

22 (D) An assessment of the impact of subterminal
23 facilities on small rural storage facilities within the
24 State or region and a program for the continued use of
25 such small storage facilities under arrangements which

1 make subterminal facilities available to them on an
2 equitable and fair basis.

3 (E) An evaluation of the various types of nonprof-
4 it and for profit ownership arrangements available with
5 respect to subterminal facilities that will provide maxi-
6 mum benefits for producers of agricultural commodities
7 within the State or region, that will enhance such pro-
8 ducers' control over the marketing of commodities pro-
9 duced by them, that will provide reasonable ownership
10 participation opportunities of subterminal facilities by
11 the owners and/or operators of small rural storage
12 facilities, and that will otherwise minimize any adverse
13 impact on existing small rural storage facilities within
14 the State or region.

15 (F) An evaluation of the potential benefits of sub-
16 terminal ownership and leasing arrangements for rail
17 rolling stock (including locomotives), motor trucks,
18 barges, and other bulk agricultural commodity trans-
19 port equipment that will help achieve maximum bene-
20 fits from the operation of subterminal facilities within
21 the State or region.

22 (G) Findings regarding the need for, the potential
23 benefits of, the estimated cost of, and the possible
24 methods of financing a State or regional office which
25 would (i) coordinate the use of freight transportation

1 equipment with subterminal shipping requirements, and
2 (ii) be owned and operated by the subterminal facility
3 developed in such State or region with assistance
4 under this Act.

5 (H) Specific plans for constructing and improving
6 subterminal facilities within such State or region, in-
7 cluding features of such facilities that will facilitate the
8 efficient movement of bulk agricultural commodities
9 from points of production to market or export points.

10 (b) Any funds made available to a State or region for the
11 purpose of assisting such State or region to develop a State
12 or regional plan shall be made available on condition that the
13 appropriate State agency (1) hold public hearings in connec-
14 tion with the development of such plan, and (2) upon comple-
15 tion of such plan submit a copy thereof to the Secretary.

16 (c) No State or region shall be eligible for a grant under
17 this section unless—

18 (1) the average annual production of bulk agricul-
19 tural commodities by such State or region meets mini-
20 mum levels established by the Secretary for a period
21 the Secretary considers appropriate preceding the year
22 in which application for such grant is made;

23 (2) the Governor of such State or the Governors
24 of such States acting together on a regional basis certi-
25 fies to the Secretary that producers of agricultural

1 commodities have experienced serious storage and
2 transportation problems within such State or region
3 during the three years preceding that year in which
4 application for such grant is made; and

5 (3) such State or group of States acting together
6 on a regional basis has established an adequate plan,
7 as described in section 5(j) of the Department of
8 Transportation Act (49 U.S.C. 1654), for rail service
9 in such State or States.

10 (d) Whenever any State or group of States acting to-
11 gether on a regional basis has submitted a State or regional
12 plan under this section, the Secretary shall approve such plan
13 if it meets the conditions specified in this Act and those pre-
14 scribed in regulations of the Secretary to carry out this Act.
15 Such a plan when approved by the Secretary shall be known
16 as an "approved State plan" or an "approved regional plan",
17 as appropriate.

18 (e) To carry out the purposes of this section, there are
19 authorized to be appropriated not to exceed \$5,000,000 for
20 the fiscal year 1980 and for each of the three succeeding
21 fiscal years.

3 SEC. 5. Section 310B of the Consolidated Farm and
4 Rural Development Act (7 U.S.C. 1932) is amended by
5 adding at the end thereof a new subsection as follows:

6 “(e)(1) The Secretary may also make and insure loans
7 under this section to public, private, or cooperative organiza-
8 tions organized for profit or nonprofit, or to individuals for
9 the purpose of constructing or improving a subterminal
10 facility in any State if the construction or improvement of
11 such facility is consistent with the approved State plan or
12 approved regional plan of such State or region. Such loans
13 may also be made to purchase rolling stock (including loco-
14 motives), motor trucks, barges, and other bulk agricultural
15 commodity transport equipment to be used in conjunction
16 with the operation of subterminal facilities.

17 “(2)(A) The total amount of loan authority made availa-
18 ble for the purpose of this subsection for any fiscal year shall
19 be allocated by the Secretary among those States that have
20 approved State plans or approved regional plans. Such allo-
21 cation shall be made among such States on the basis of such
22 formula as the Secretary shall prescribe by regulation, except
23 that any such formula shall include the following factors: The
24 total railroad mileage in each such State, the annual produc-
25 tion of bulk agricultural commodities in each such State, and

1 the existing storage capacity for bulk agricultural commod-
2 ities within each State. In no event may the amount of loan
3 authority allocated to any such State in any fiscal year be
4 less than an amount equal to 1 per centum of the total loan
5 authority available for allocation in such fiscal year.

6 “(B) Any loan authority available for use in any State in
7 any fiscal year that is not utilized by such State shall be
8 reallocated, to the extent practicable, among other States eli-
9 gible for the assistance provided under this section, in accord-
10 ance with the same formula developed by the Secretary for
11 the initial allocation of loan authority under this subsection.

12 “(C) The total railroad mileage, bulk agricultural com-
13 modity production, and storage capacity within any State
14 shall be determined by the Secretary in consultation with the
15 Interstate Commerce Commission.

16 “(3) As used in this subsection, the terms ‘subterminal
17 facility’, ‘approved State plan’, or ‘approved regional plan’
18 shall have the same meanings as provided in the Agricultural
19 Subterminal Storage Facilities Act of 1979.

20 “(4) Within one hundred and eighty days after the date
21 of enactment of the Agricultural Subterminal Storage Facili-
22 ties Act of 1979, the Secretary shall establish such rules and
23 regulations as may be necessary to implement the provisions
24 of and to carry out the purposes of this subsection.”.

1 NONRECOGNITION OF GAIN FROM SALE OF FACILITY IF
2 PROCEEDS ARE REINVESTED IN ANY TRADE OR BUSI-
3 NESS PROPERTY

4 SEC. 6. (a) Section 1033 of the Internal Revenue Code
5 of 1954 (relating to involuntary conversions) is amended by
6 redesignating subsections (g) and (h) as (h) and (i); respec-
7 tively, and by inserting after subsection (f) the following new
8 subsection:

9 “(g) CERTAIN AGRICULTURAL STORAGE FACILITIES
10 ADVERSELY IMPACTED UNDER THE AGRICULTURAL SUB-
11 TERMINAL STORAGE FACILITIES ACT OF 1979.—If the
12 taxpayer sells or exchanges a single purpose agricultural
13 structure (within the meaning of section 48(a)(1)(D)) used by
14 the taxpayer during a preceding taxable year ending 24
15 months or less before the date of sale or exchange by the
16 taxpayer in his trade or business for the storage of agricul-
17 tural commodities, and such sale or exchange is due to the
18 construction of a subterminal facility (as defined in paragraph
19 (2) of section 3 of the Agricultural Subterminal Storage
20 Facilities Act of 1979) which serves the area previously
21 served by the taxpayer’s structure, then—

22 “(1) the sale or exchange shall be treated as an
23 involuntary conversion for purposes of this section,

1 “(2) the sale or exchange shall not be considered
2 a disposition of, or cessation of being section 38 prop-
3 erty for, such property for purposes of section 47, and
4 “(3) any other property (including real property)
5 used by the taxpayer in a trade or business, including
6 farming, shall be treated as property similar or related
7 in service or use to the property converted.

8 For purposes of this subsection, the gain, if any, properly
9 allocable to the sale or exchange of any building or structure
10 used in connection with such an agricultural structure, or to
11 any land on which such structure (and building and other
12 structure) is located used in connection with the operation of
13 the agricultural structure, shall be treated the same as gain
14 from the sale or exchange of the agricultural structure if such
15 building, structure, or land is sold at the same time as the
16 agricultural structure.”.

17 (b) The amendments made by this section shall apply to
18 taxable years beginning after December 31, 1979.



**STAFF SUMMARY OF S. 261, THE AGRICULTURAL SUBTERMINAL STORAGE FACILITIES
ACT OF 1979**

S. 261 provides the means for the construction and improvement of subterminal storage and shipping facilities for (1) any agricultural commodity that can be temporarily stored in bulk quantities without undergoing processing or packaging and (2) any commodity or product—that can be stored or shipped in bulk—used by producers in the production of agricultural commodities, and further provides for planning programs for the location of such facilities on a State and regional basis.

A State, or two or more States acting together, may apply for planning grant funds of up to 80 percent of the cost of developing State or regional plans. The plans must, among other things, contain an evaluation of the potential benefits of subterminal ownership and lease of rail rolling stock, including

locomotives, trucks, barges, and other bulk agricultural commodity transport equipment. For planning grants, there is authorized to be appropriated not to exceed \$5 million for each of the fiscal years 1980 through 1983.

After a State plan is approved, eligible applicants can apply for insured or guaranteed loans under a Farmers Home Administration loan program established by the bill.

Under the bill, small rural storage operations could sell their facilities and associated real estate and invest the proceeds in a different enterprise without having to pay a capital gains tax.

Senator ZORINSKY. I commend Senator McGovern for the fine work he has performed in developing this bill, and I would ask him at this point to provide the subcommittee with his comments on this legislation.

**STATEMENT OF HON. GEORGE McGOVERN, A U.S. SENATOR
FROM SOUTH DAKOTA**

Senator McGOVERN. Thank you very much, Mr. Chairman. I have a prepared statement that I won't read, but I would like to have it made a part of the record.¹

Senator ZORINSKY. Without objection.

Senator McGOVERN. Mr. Chairman, for the last couple of years our office has been very much concerned about the deteriorating crisis in transportation and shipping services. In our part of the country, as you know, there has been a steady decline in rail service, and more and more dependence on the trucking industry to move grain. The result of all these actions in rural America has been devastating.

The trend in rail service in recent years has been away from light-density branch lines and the small country elevators. The shippers will tell you that if the rails would just provide service in that area that it would be profitable. But on closer examination, when you discuss the realities of operation of the rail lines, it is pretty convincing, I think, that even if they provided unlimited service at the present rates, the lines in question would not be profitable. The facts are that the carriers cannot afford even the necessary equipment to serve light-density lines.

So, absent any substantial changes in Government or the rail industry, I think it's fair to say that the agricultural States will experience further deterioration of branch line service, and particularly in the shipping and processing operations related to it.

Many of the large grain shipping and processing corporations have already perceived these trends and they have begun to consolidate their operations on viable rail main lines with subterminal elevator shipping and receiving facilities that are capable of loading unit trains and taking advantage of lower rates.

Under that kind of scenario, the small country elevators that are the lifeblood of our rural communities could be left stranded on deserted track.

Although the Agricultural Subterminal Facilities Act of 1979—and I appreciate your kind words about it, Mr. Chairman—will not re-

¹ See p. 63 for the prepared statement of Senator McGovern.

solve all of the problems of agricultural transportation, it can provide for the preservation of local control over our shipping and storage facilities.

The act is designed to allow our existing local elevator operators to act cooperatively, to take advantage of this trend and ultimately to improve the transportation service they receive.

Let me just say that the bill provides a planning mechanism through which the information necessary for the location and construction of subterminal elevators would be made available to area elevators. Based on such information, elevators may collectively participate along with Government financing, where necessary, to construct subterminal facilities.

I hope it is understood from the outset, Mr. Chairman, that this bill is designed to assist and strengthen the rural communities, to strengthen the rural elevator institution, to help our farmers and our shippers who are out on these branch lines, who are otherwise going to be stranded. So, I appreciate your prompt effort, Mr. Chairman, in scheduling this hearing, and with your own interest and involvement in this legislation. I won't take any further time of the committee at this stage.

Senator ZORINSKY. Thank you very much, Senator McGovern.

As our first individual to testify, I would like to call upon the Honorable Daniel O'Neal, the Chairman of the Interstate Commerce Commission—and welcome back, I should add.

STATEMENT OF HON. A. DANIEL O'NEAL, CHAIRMAN, INTERSTATE COMMERCE COMMISSION, ACCOMPANIED BY JOHN MICHAEL, CHIEF, SECTION OF RAILROADS

Mr. O'NEAL. Thank you, Mr. Chairman. With me is John Michael, who is Chief of our Section of Railroads, and he might be helpful in answering some specific questions that you might have regarding railroad operations.

I appreciate the opportunity to come before the committee and testify on this bill. We like this piece of legislation and we think it holds great promise in solving some difficult problems that we're involved with frequently.

The bill provides a mechanism for improving the car supply situation by improving car utilization through increased unit train movements, and by an increased supply of cars. In addition, the bill holds promise of increasing both intra- and inter-modal competition.

There is no real doubt that the railroads as a whole are a troubled industry. The industry's profitability has declined sharply over the last several years. Some railroads are overbuilt, unable to maintain their track and equipment, and are unable to secure credit to make needed improvements. The effects of those problems are often severe.

As the subcommittee is aware, during the past year the Nation faced one of the worst car shortages in two decades. Shortages of jumbo covered hopper cars and boxcars numbered in the tens of thousands. That is due, in part, to a decrease in the number of railcars. But beyond numbers of cars, car shortages are also a result of poor utilization.

Indeed, equipment utilization goes to the very heart of railroad

performance today. Better utilization can result in better service, and better service at a lower cost.

While the direct regulatory role in car utilization is limited, the Commission has taken action to encourage better car utilization and to promote private car acquisition. For example, during car shortages the Commission may and does issue car service orders. Such orders, though necessary to help shippers, and frequently particularly shippers that are on branch lines, they often run counter to rail management decisions and may run counter, in fact, to the most efficient use of the rail system.

We feel it would be more constructive to improve car service by making certain traffic more attractive to the railroads. Consolidation of shipping terminals and the use of unit trains could make previously marginal agricultural traffic more desirable and profitable, thus improving service.

The railroads' problems and resulting shipper problems of poor or no service will not go away, even if there are significant changes in the regulatory system. Some rationalization of the existing system seems inevitable. That means line abandonments will continue to be sought by the railroads.

This bill offers an alternative, a very attractive alternative, to the traditional line abandonment contest between railroads and shippers. Let me now address some of the specifics of the bill.

First, the bill recognizes the efficiency of unit train movements of bulk commodities. We believe, by encouraging more unit trains, the legislation will help to improve car utilization.

Second, the bill would encourage subterminal ownership or lease of rail rolling stock, including locomotives. These provisions should be useful in promoting better car supply and utilization.

The bill, in addition to encouraging the physical consolidation of country elevators, would also permit those country elevators remaining in operation after subterminal development to participate in the subterminal's bulk shipments. In this way, the bill could ease the burden on elevator operators located on lines likely to be abandoned. It could also permit more expeditious abandonments by the railroads by decreasing the number of protested abandonment applications.

The Commission, in recent decisions, has been particularly sensitive, I think, to the effects of its actions on competition. In line with this, we note that the effects of this bill may be to offer shippers access to some additional transportation companies that they didn't have access to in the past, thus providing them with some competition that can help their service and perhaps reduce the rates they pay.

The effects of intramodal rail competition would likely become apparent during the planning stage envisioned in the bill when it will be to the advantage of the terminal planners to coordinate site selection with their negotiations for service commitments from alternate rail lines.

Competition between railroads and trucks or barges would also likely be enhanced by this legislation. The effect of the bill should be to encourage the use of contract rates or unit train rates which in some cases could be competitive with truck and barge rates. And as already noted, equally important to intermodal competition could be the im-

proved rail service reliability and speed resulting from the greater efficiency and improved car utilization associated with contract rate and unit train arrangements.

At the same time the competition would be enhanced, cooperation between modes would also be encouraged, because of that concept in the bill which suggests an intermodal approach to the structure and placement of the subterminal facilities.

Finally, contract rates are a key element in the type of heavy capital investment contemplated by this legislation. The Commission has recognized the important savings and benefits to rail transportation which can result from the use of contract rates. We can only voice our strong encouragement for the use of such rates and indicate our support of legislative efforts such as this which would provide further incentives for their use.

In conclusion, let me repeat that change is in store for the railroad industry; and that means changes in store for the users of the railroad system. There will be changes in the way the railroads operate, changes in the way they are regulated, and changes in the way they are used. This means there could be substantial adjustments that would have to be made by rail users, one way or the other.

This bill can help make the change much more palatable and much more constructive for everybody involved.

That concludes our short statement. I have a longer statement I would like to submit for the record.¹

Senator ZORINSKY. Without objection, it will be printed in the record.

Mr. O'NEAL. I would be happy to try and answer any questions which you might have.

Senator ZORINSKY. Thank you.

I would like to begin the questioning by asking about a \$2 million fine imposed on ConRail last year for not utilizing grain cars to the fullest extent. My question is: Do you think that is really effective, in view of the fact the same people that fined ConRail the \$2 million are the ones who subsidize ConRail for their deficit in operations?

Mr. O'NEAL. We went over that question last year. It is, of course, an obvious flaw in the whole exercise. Is it a useful enforcement tool for the Government to take money out of one pocket while putting it into another?

The purpose of that approach, though, is to direct the attention of management to the problem, and while there may be no net flow of money to the Government, and maybe the penalty is not as severe and meaningful as it might otherwise be, it does force management to pay attention to these problems.

Frequently we have found that problems that come to our attention for some reason have not been brought to the attention of people in railroad management that have the power and the capacity to make the changes. This is one way of bringing these matters to their attention.

We have other ways we use, too. For example, simply contacting middle management is used frequently.

¹ See p. 64 for the prepared statement of Mr. O'Neal.

Senator ZORINSKY. Mr. O'Neal, you mentioned in your statement that the establishment of subterminals could facilitate more expeditious abandonments. Before we continue, I would like to stress that I am not anxious to hasten abandonments of branch lines—

Mr. O'NEAL. Right.

Senator ZORINSKY [continuing]. Nor, I might add, do I in anyway support the concept of deregulation of the rail industry. Nevertheless, if such abandonments are certain, as you point out, then I and my colleagues from the grain-producing States of the Midwest would be fools to sit around like ostriches with our heads in the ground, refusing to see and accept the inevitable. Instead, we have got to prepare for it and, therefore, ease some of the adverse impacts.

So the question I am asking you, Mr. O'Neal, is: Do you consider the abandonment of many branch lines inevitable, despite the continued opposition of the local users?

Mr. O'NEAL. I think, unfortunately, from the standpoint of the local users, that these abandonments are inevitable. The cost of operating everything in this country is going up, and that certainly is true as far as the railroads are concerned. They are losing more and more traffic to other modes of transportation. It is very expensive, and I am sure the railroad folks who are here can go into greater detail on that than I can.

But it is expensive and it's difficult for a railroad to provide service over a branch line, single-car service to just one or two elevators. It is not an easy thing to do. Your costs of maintaining a line are much greater, many times, than the rewards you are likely to get. There are all sorts of operational problems that make it less attractive for a railroad to provide that kind of service. The pressure is on them to back out of it.

When we are confronted with these cases at the Commission, we do look at whether they're making money on the line; we do look at the impacts on the communities and the shippers. But when you look at the overall condition of the railroad, it is very difficult for us to impose an obligation that is going to cause the railroad to be even further away from a profitable state.

So I guess the short answer is yes, it's inevitable that we're going to have more line abandonment cases, and many of those are going to be granted.

Senator ZORINSKY. If it is inevitable, then what options are currently available to the producers and other users of an abandoned line? In other words, what can the farmers and other shippers who depend on these branch lines, what can they do to prepare for the—as you put it in your prepared statement—abandonment of the rail transportation system?

Mr. O'NEAL. Of course, one option available now is a subsidy provision, where States and others could pick up some of these lines and operate them. There isn't that much money available in that program. It's an expensive program from the Government's standpoint, whether it is local, State, or Federal. So while I think it has some utility, it is fairly limited.

That is one reason why we find this piece of legislation much more attractive. I think this is the way to consolidate, to make the traffic

we're talking about here more attractive to the railroads, so that they will really go after it. It is more of a positive approach, I think, than we have had before. It is much more positive than line abandonments, and much more constructive.

I think it would be a very important additional weapon in the arsenal Government uses to deal with this kind of problem.

Senator ZORINSKY. You feel that this type of legislation, then, would be a viable alternative to abandonments?

Mr. O'NEAL. Oh, very much so.

Senator ZORINSKY. Thank you.

Senator McGovern?

Senator MCGOVERN. Thank you, Mr. Chairman.

Mr. O'Neal, first of all I just want to express my personal appreciation to you for the way you handle your responsibilities as Chairman of the ICC. I especially appreciate that you took the time to come out to my State to spend a long day in hearings with us. We have been conducting hearings on the rail problem out there, as you know, in all parts of the State, from border to border, for the last 1½ years.

I think the rail and shipping problems are soluble. I think if we can get more of the positive attitude that you have expressed here today, and if that can pervade our efforts throughout the Government, there is no reason why working with the Department of Transportation and the Department of Agriculture, the Congress, the ICC, why we can't find an answer to the transportation crisis in agricultural America.

I was disappointed, frankly, that the President didn't make any mention of the rail problem last night. I think when you make a major address on the Nation's energy problems, there is no way to address that problem fully without some mention of the role railroads can play in resolving the energy problem. It is still the cheapest way to move grain and to move bulk commodities. It not only saves energy; it will protect the environment, save resources, and it will strengthen our economy. A good, efficient rail and shipping operation will attack the two most serious problems before the country today—one is inflation, and the other is energy. And then just thrown in for good measure, you protect the environment at the same time.

So, I am grateful for the positive notion that you bring to this hearing today. For whatever time I have left here in the Senate I'm going to devote a good share of it to this rail problem. I am backed up, fortunately, with a very capable staff person in this area, Robyn Carpenter, and we're going to give major attention in trying to find an answer to this problem.

Mr. O'Neal, you say that the legislation that Senator Zorinsky and I have introduced should help avoid serious disruptions in rail service, while a rationalization of the rail system occurs, and that it provides assistance to those affected during the transitional stage leading to rationalization.

I rather look on the bill itself as a tool in the process of rationalization, at least in the grain-producing States, and not simply as a way of easing through a transitional period. Do you differ with me on this point, or is it just a matter of semantics?

Mr. O'NEAL. Well, I think I can accept that characterization. I think it really is part and parcel of the whole process of trying to make some sense out of the rail system, in trying to bring better service to the rural shipper and at better prices.

Senator MCGOVERN. I don't want to be repetitive of the questions that Senator Zorinsky asked, but I wonder if you could just underscore what impact you think the passage of this bill and its implementation would have on the future structure of the rail system in the Midwest and upper Great Plains States?

Mr. O'NEAL. We have not done a large-scale study of the total impact that it might have, but we do know there are a lot of very small branch lines throughout that area of the country, many of which have been targeted by the railroads for line abandonment.

Where this has occurred in the past, where there has been this kind of consolidation—I understand there has been a consolidation of something like 30 to 1 in many cases. That could have a tremendous effect on the capacity of the railroads to provide better service and the ability of the shippers to get their commodity to a point where they would have available to them better service, multitar rates and that sort of thing.

We haven't done a large-scale study of the whole thing, but I feel very confident, and the staff does, too, that this could have a significant impact.

Senator MCGOVERN. I have the same feeling that Senator Zorinsky does about branch line abandonment. None of us like to see any part of our rail service disappearing.

But if you assume there's going to be a certain amount of that, is it your view that with those branch line abandonments taking place, this bill, if it were in place and in operation, would give the country elevator operators a better alternative than would otherwise be the case?

Mr. O'NEAL. Absolutely. I think there's no question about it. It gives them an option that just is not available and ought to be available.

Senator MCGOVERN. In discussing the effect of the legislation, you raised a point that hadn't occurred to me before, and that I hadn't heard anyone say. You said the existence of subterminal facilities established by this legislation would make it conceivable that small elevator operators could have a choice of trucking to more than one subterminal.

Put another way, you're saying the subterminals could give small elevators a competitive edge they don't now have in shipping and marketing their grain. Do I paraphrase you correctly on that?

Mr. O'NEAL. That's right. We feel those who are now involved with small country elevators would have access in many cases—not in every case, for there are certain situations where there is not more than one railroad around. But in many cases it would, we think, provide them with some options that they don't have today.

Senator MCGOVERN. You also said that the bill would enhance both competition and cooperation between trains and trucks because of the intermodal concept of the legislation.

I wonder if you could just explain that a little more, as to what you had in mind.

Mr. O'NEAL. Well, I think there we are talking about some provisions in the bill that promote that concept. We are talking about, probably, some additional reliance on gathering by truck for shipment into the subterminal and movement from the terminal by rail, rather than just movement directly and initially by rail. So there would be more of a reliance on truck gathering and linehaul movement by the railroads.

There are many people who, in observing the railroad industry, feel that the real future for the rail industry is in, if you will, the wholesaling of transportation; that is, the linehaul movements between fairly major points, and cooperation with the trucking companies that gather the commodities together into a more central place. I think that's really what we're talking about in that area.

Senator MCGOVERN. Mr. O'Neal, there's an impression in our part of the country that I'm sure you're more familiar with than any of us, but it's a rather widely held impression on the part of farmers and shippers, that if the railroads would just provide the right number of cars at the proper time, there would be enough business generated on the rail lines so that they could operate well and agriculture would be better off and everything would be fine.

Can you comment on that impression? I'm sure you must have heard that, Ed, all the time.

Senator ZORINSKY. I certainly do.

Senator MCGOVERN. Time after time, both at public hearings I have participated in, and also in talking with farmers and local shippers, they say:

Well, if the railroads would just get the cars out here, on time, and in the right numbers, and in decent condition, we could generate enough business out here so they would make money on these lines.

Mr. O'NEAL. Well, I guess it's a question of which comes first, the chicken or the egg. If the railroads could get the cars out there, maybe there would be sufficient business.

We are troubled by the fact that car utilization in the railroad industry has gone down in the past several years. It is not a good sign, and it has implications for shippers and it also has tremendous implications for the railroads themselves, because it means, if they can't get better use out of their equipment, they're going to have to buy more equipment and the service is going to be worse, and they're going to lose more traffic. These implications are fundamental and very important.

But at least in peak periods, I don't think there is any way under the present system, that shippers can get the number of cars they need. Maybe they could if the Government were to supply additional cars, perhaps in some sort of national fleet that would be held in reserve for use during peak periods. But I don't think the Government is ready to do that because it's expensive. There is just no way that you can expect a private organization like a railroad to keep on hand this extra capacity. So for peak periods, I just don't see it happening.

Last year we had a tremendous car shortage, and we're having problems this year as well. This was after a period where there weren't that

many shortages. There were some, but they weren't anything like last year.

This kind of approach, the subterminal concept, I think, helps everybody, because it will make it easier for the railroads to get more cars and it will make it easier for the railroads to get more cars to where there is more traffic. It should help the utilization.

Senator McGOVERN. Just by way of summary, a final question.

Is it fair to say that after studying this legislation as it now stands, you would agree that it does help the railroads to provide more efficient service, dealing with the boxcar problem we just talked about, among other things; that it does give the country elevator more options than they now have; that it would help agricultural shippers and farmers? In other words the rail shippers and farmers are going to be better off if this legislation is implemented?

Mr. O'NEAL. I think they are all winners if this legislation becomes law, yes, sir.

Senator McGOVERN. I can't improve on that, Mr. Chairman. Thank you very much.

Senator ZORINSKY. Thank you.

Mr. O'Neal, I would like to ask you a question concerning the fears of some of the representatives of the railroads. They have expressed some reservations about the possible impact of subterminal development on certain branch lines which they maintain are currently economically viable.

They apparently feel that a commitment has been made by the railroad to these branch lines, and the establishment of a subterminal in this area would threaten the continued use of the line.

In your opinion, are those fears justified?

Mr. O'NEAL. Well, I assume that if the shipper is now satisfied with the service he is getting, and the railroad is satisfied with the revenue, that there is much less incentive for any of them to become involved in this process.

I have trouble with that fear. I can't imagine why the railroads would oppose this approach.

John, do you have something you wanted to add?

Mr. MICHAEL. Well, I think the bill's planning process would have much to do with that aspect of it.

Mr. O'NEAL. That's a good point.

Mr. MICHAEL. The bill provides for this planning, and if that is well done, then I think the impact on that aspect of it would be at a minimum.

Senator ZORINSKY. Every year we go through a grain car shortage. I go through it, and George goes through it. As Easter is about to come upon us, so are grain car shortages always about to come upon us as a seasonal occurrence. That's why I feel so enthusiastic about George's bill. This problem will be here long after you and I are gone, Mr. O'Neal, if we don't take some innovative action in an attempt to finally resolve the problem that exists.

We hear annually from the railroads about how many new grain cars they are building, in an attempt to beef up, but nobody ever wants to talk about how many they retire. Yet, the net difference is the important figure.

Do you have any figures that verify or substantiate the claim that they are increasing the net capacity to haul grain, or that we are slipping in the other direction?

Mr. O'NEAL. John?

Mr. MICHAEL. We're talking about just grain cars?

Senator ZORINSKY. Yes.

Mr. MICHAEL. The total number of covered hoppers, which is the preferred vehicle for grain now, is up somewhat. But the total grain-carrying fleet, which also includes boxcars in many areas, is not up. The total for grain carrying is down somewhat.

Mr. O'NEAL. One of the reasons that I think the country elevators don't have more cars available than they once did is because there is shrinkage in the traditional boxcar that was used for grain, and there are more covered hoppers being used. They are more efficient, more revenue per car, so naturally there is a tendency to go for those kinds of cars.

Those cars frequently are not usable on a small branch line. The branch line just can't handle that size car. So, that is one impact that I think flows from this tendency toward the use of larger cars.

Senator ZORINSKY. Thank you, Mr. O'Neal. Again, I would like to compliment you on your testimony, and thank you for your availability and your accessibility. At a recent meeting that I had with constituents on another subject back in Nebraska I wished you would have been at the meeting instead of me.

However, when I said "Let's call Mr. O'Neal and ask him," the constituents were rather astounded that you were so accessible in order to answer those questions and to help resolve some of the problems that confronted us at that meeting. I want to thank you for that.

Mr. O'NEAL. Thank you.

Senator ZORINSKY. Our next witness is Mr. Ron Schrader, Director, Office of Transportation, U.S. Department of Agriculture.

Mr. Schrader, you may summarize your statement if you wish. It still will be included in its entirety in the record.¹ Proceed as you wish.

STATEMENT OF RONALD F. SCHRADER, DIRECTOR, OFFICE OF TRANSPORTATION, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JAMES LAUTH, DEPUTY DIRECTOR, AND IRA KAYE, RURAL ASSISTANCE SPECIALIST

Mr. SCHRADER. Thank you very much, Mr. Chairman, for allowing us this opportunity to testify. I did want to introduce Jim Lauth, the Deputy Director of our new Office of Transportation, and Ira Kaye, who is head of our Rural Assistance Unit in the Office of Transportation.

Also with me today are John Bowles and Bob Butler of the Farmers Home Administration, since we have discussed some Farmers Home programs in this testimony. We thought you might have some questions regarding that.

As I have indicated, we do not support the enactment of S. 261 at this time, because of the premature nature, even though it has been in

¹ See p. 67 for the prepared statement of Mr. Schrader.

effect in several States and certain areas, and we believe it will work in other States as well. But the rural advisory task force that I believe Senator McGovern and Senator Huddleston from this subcommittee were both major sponsors of on that legislation, was initiated last November. As a matter of fact, yesterday we completed our second session of that rural advisory task force and we are looking into these very problems as well as other problems.

We have 14 members, in addition to the Secretaries of Agriculture and Transportation, who are the cochairmen of that task force, and those 14 members represent shippers, railroads, trucklines, barges, and the agriculture community in general.

The purpose of the task force is to make recommendations for determining the essential transportation needs of agriculture; to establish a national agricultural transportation policy; and to identify the impediments to a railroad transportation system adequate to meet those essential needs.

While it is clearly recognized that there is a need for improvement of subterminal storage and transportation facilities in many parts of this country, the Department strongly believes that this is a problem which should be considered within the whole context of addressing problems and potential solutions relating to agricultural transportation needs.

I might add that Senator McGovern and his staff have given us more ideas and more potential solutions than any other single source for use in our task force deliberations, and we appreciate that very much.

Finally, I would just like to indicate that authority does presently exist in both the Farmers Home Administration and in the Federal Railroad Administration for the availability of funds for either loan or grant activities for construction of subterminal facilities. And to this extent, it is our view that S. 261 would provide some duplication of authority which presently exists in these two agencies. Additionally, it would require two separate Federal planning processes for the same purpose.

The Federal Railroad Administration also has authority for grants to States for rail planning purposes, including projects such as subterminal facilities. Funds are available for these purposes for fiscal year 1979.

I would like to say that we have several projects in USDA that have been funded through the Farmers Home Administration regarding branch lines. They, as well as the Federal Railroad Administration at DOT, have recently signed a memorandum of agreement which allows them to use B. & I. funds from the Farmers Home Administration for the upgrading and maintenance of rail lines, which would dovetail with the 4-R Act moneys that are available through the Federal Railroad Administration.

Farmers Home expects to provide an increased level of loan activity for railroad rehabilitation and rail shipper facility projects during fiscal 1979 and subsequent years. The Department of Agriculture has funded two demonstration projects, one in Minnesota and one in North Carolina, to create and test a methodology on how to identify

essential branch lines, essential rail lines, and then to provide the tools to address those problems.

Finally, we are working with the State of South Dakota today on a test of the feasibility of using a transportation cooperative idea to own and operate that part of the Milwaukee line that is facing abandonment.

Mr. Chairman, that concludes my statement. We would be happy to answer any questions you may have.

Senator ZORINSKY. Thank you, Mr. Schrader.

Mr. Schrader, what was your occupation prior to being Director of the Office of Transportation for USDA?

Mr. SCHRADER. I wasn't in USDA, Mr. Chairman. I served as administrative assistant to Secretary Bergland in Congress, and then as executive director of the locks and dam 26 national committee prior to joining USDA.

Senator ZORINSKY. Have you ever had an investment in grain in which you lost money every day because you couldn't move it, or have it sold but you can't figure out how to get it to the customer?

Mr. SCHRADER. No, sir.

Senator ZORINSKY. Would you care to give me your home telephone number so that when all these farmers call me and ask me about these grain cars—I mean, it's easy for you, the Department of Transportation and everybody else to take a position opposing trying to find some way of resolving this. And I say to you, that's fine. I am certainly not going to try to put you in a position to change the Department of Agriculture's policy on this specific recommendation.

So speak against it, and then when you're through, give me the resolution to the problem. If this isn't the way to go, guarantee me that next year we won't be faced with the same shortages. In other words, I guess it's awful easy to criticize something that's new, that's different.

I even noticed in the energy bill, after Carl Curtis sat right here a year ago, and I sat right down there, being a freshman Senator on this committee, and got an amendment on to the farm bill for gasohol plants. Four plant loan guarantees were issued, authorized, and not one of them deals with corn or wheat surpluses. If we had known that, Carl Curtis would have kept his mouth shut and I would have kept my mouth shut, and they wouldn't have had that amendment on the bill. Because USDA says it was no good.

Last night in his energy message the President of the United States says gasohol is so good they're going to make the 4-cent gasoline tax exemption permanent for gasohol. Well, that would be great if we could find out where to get gasohol.

So, you know, I say this is fine, to oppose this bill, but then you tell us what to do to resolve the problem.

Mr. SCHRADER. Mr. Chairman, I know that you're getting calls because the Office of Transportation gets the same kind of calls, concerning the same kinds of problems. But we are not opposed to the basic concept of this bill. We agree with it, but we would like to look at the total picture.

We also feel that there are moneys available today in the Federal

agencies that I mentioned that would be able to provide those studies and the construction necessary to take care of what this bill calls for.

Senator ZORINSKY. Well, this is not the first year this has ever occurred. You say now you want to do some studies and look at it. Well, what have we been doing for the last 10 or 15 years, when car shortages occur every year? This is the point I'm trying to make.

Let me give you a perfect example. In November 1978, the chairman of this committee, Senator Herman Talmadge, received a letter from Carol Tucker Foreman promising a continuing flow of information on the impact of railcar shortages around the country. To date, no information has been forthcoming as agreed upon.

I'm asking you, when can we expect the reports to start? Because even when you tell us you're going to do something, we can't get it done. In November of last year they promised us an ongoing report of where the boxcars are.

Mr. SCHRADER. Well, Mr. Chairman, we were not aware of that request. We did not receive the request from Miss Foreman. I will give you my guarantee that you will, as of Monday morning, receive that information and a continuing update of that information as we have it.

By the way, it might be helpful if this committee were able to talk with the Association of American Railroads to provide our office with the necessary car shortage information figures that we need to not only work in our own Office of Transportation, but to use for the rural advisory task force in our deliberations on what kinds of recommendations we can come up with to work on those problems. We are not able to get those figures. We were able to get them up until January of this year.

But, Mr. Chairman, we do have a good deal of information and we will provide it to you starting Monday morning.

Senator ZORINSKY. During the recent suspension of trading on wheat futures there were indications that the Chicago area was experiencing a transportation problem which could have impacted on the situation.

The USDA Office of Transportation was asked to furnish information on this situation, and it was never provided. Are you aware of why it wasn't provided?

Mr. SCHRADER. Sir, I'm really not sure why we didn't get that information.

Senator ZORINSKY. Could you check into that and let us know on that?

Mr. SCHRADER. Certainly.

[The following information was subsequently submitted by Mr. Schrader:]

The attached table shows the effective dates and the cancellation dates of weather related embargoes in the Chicago area. Re-route order No. 16 issued by the Interstate Commerce Commission diverted rail traffic routed via Chicago to be moved through other east-west gateways such as Peoria, St. Louis, etc. This order was in effect from January 15, 1979, to March 9, 1979. Other than the self imposed embargoes by the individual railroads shown, two Car Service Directives were issued by the Association of American Railroads. The first, embargo 7902, became effective January 15, 1979, and was cancelled on January 23, 1979. The second, embargo 7904, became effective January 24, 1979, and was cancelled February 16, 1979. In both embargoes, it was possible to obtain permits from the delivering carrier for traffic destined to Chicago.

It would be highly speculative to draw the conclusion that a re-route order or general embargoes could be directly linked to the temporary suspension of trading of March wheat futures at the Chicago Board of Trade, though the existence of the embargoes may have prevented some delivery of wheat.

INTERSTATE COMMERCE COMMISSION

Re-route Order No. 16—Effective January 15, 1979, cancelled March 9, 1979.
ConRail—Embargo 6-79—Effective January 15, 1979, all COFC/TOFC Traffic originating; cancelled January 22, 1979, destined or interlined at Chicago, permits.

ATSF—Embargo 1-79—effective January 15, 1979, all COFC traffic originating or cancelled March 2, 1979, destined Chicago, permits effective February 16, 1979.

NW—Embargo 3-79—effective January 15, 1979, all coal traffic destined or cancelled March 22, 1979, interlined Chicago.

CSD¹—Embargo 7902—effective January 15, 1979, all traffic consigned to Chicago, cancelled January 23, 1979, permits.

EJE—Embargo 3-79—effective January 19, 1979, all traffic destined to CWP&S Railway, cancelled February 6, 1979.

Belt Ry, Chicago—Embargo 1-79—effective January 24, 1979, all traffic destined to industries on the Belt Ry, cancelled February 22, 1979.

CSD¹—Embargo 7904—effective January 24, 1979, all traffic consigned to Chicago, cancelled February 16, 1979, permits.

CNW—Embargo 10-79—effective January 31, 1979, all COFC traffic destined Chicago.

Belt Ry, Chicago—Embargo 2-79—effective February 1, 1979, all traffic in interchange with Milwaukee, cancelled February 12, 1979.

CNW—Embargo 13-79—effective February 20, 1979, all traffic consigned to specific industries in Chicago, cancelled March 9, 1979.

Senator ZORINSKY. I would defer to my colleague, Senator McGovern, for any questions he has.

Senator MCGOVERN. Mr. Schrader, I wanted to just ask a few questions of you, as the top person in transportation at USDA. Let me say first of all I am glad that you got that office in the Department of Agriculture, because as you know so well, transportation is very closely tied in with the health of our agricultural economy.

I just wondered if the Department of Agriculture, and you specifically, generally support the goals of this legislation, without getting into some of the specific problems that you might see. But do you generally think the bill is aimed in the right direction?

Mr. SCHRADER. Senator, I think we do generally support the goals of this legislation. But as I indicated in the testimony, we do not support the enactment of this legislation at this time because we feel, even though it is a good piece of legislation, it does have considerable merit and has worked in a number of areas, specifically in Iowa, southern Minnesota, and Illinois, where it is already in place. But we feel, because it is part of a total picture, along with a number of transportation issues that have to be solved, and because the rural transportation advisory task force resulting from legislation passed last October has just been implemented, we feel this, as well as other innovative approaches, should be pulled together in a total picture.

Senator MCGOVERN. I once worked in the executive branch during the early years of the Kennedy administration, and I know that no matter how good an idea is, if the Budget Bureau discovers that it's going to cost a few dollars, sometimes the Department that favors the legislation has to come up and testify against it.

¹ Car Service Directive issued by the Association of American Railroads.

So I don't want to embarrass you about the restrictions that the Budget Bureau has you under, but is it not fair to say that if OMB had failed to discover that there is \$5 million in planning money involved in this legislation, the Department would have been able to come up here today and say it's a good bill?

Mr. SCHRADER. Yes, sir. [Laughter.]

Senator McGOVERN. I know we have worked closely enough with the Department of Transportation and Agriculture, and you are generous to give us credit for some of the ideas you are working on.

It is a fact, isn't it, that the Department of Transportation hadn't really considered using the rail planning money for subterminal planning until this legislation was introduced?

Mr. SCHRADER. That's correct, sir. I know of no moneys that had been expended for that purpose to date.

Senator McGOVERN. There really hasn't been any money spent out of the rail planning fund in your budget for subterminal matters, has there?

Mr. SCHRADER. No, sir, at least not in the States of Illinois, Minnesota, and South Dakota, that we're aware of.

Senator McGOVERN. I can tell you there hasn't been any in South Dakota and there won't be, because we need every dime we can get from the Local Rail Service Assistance Act just to save the tracks. We have to have every penny of it to try to upgrade our system. The tracks are so bad out in our State that we have actually had trains fall off the track while they were standing still. So there is none of that money that is going to be available for planning on subterminal facilities.

Under those circumstances, if you can just separate yourself from the Budget Bureau for a moment here, don't you think personally—and laying aside what the official testimony of the Department of Agriculture is today—don't you feel personally that we need some additional planning money to look at this subterminal problem? I realize \$5 million is not peanuts. On the other hand, I was just doing a little calculation here, and right around the clock, 24 hours a day, 365 days a year, the Defense Department spends \$5 million every 20 minutes.

It would seem that over 1 year's time, with shipping, agriculture, and transportation as important as it is—after all, moving the Nation's food supply is national defense, too. If we get into a war, the capacity to move food quickly from coast to coast is going to be just as important as adding a few more missiles. So I would hope that you and your colleagues would prevail on the Budget Bureau to look at the larger picture.

Your testimony indicates we ought to look at the total picture. I agree with that. But I think that is one of the merits of this legislation, that it forces us to look at the relationship of that farm product from the time it leaves the farm, to the country elevator, to the subterminal, to the eventual point of export or distribution. I think \$5 million in planning money to deal with anything as important as the shipment of the Nation's food supply, and the temporary storage of that food supply is very important.

I don't want to put you on the spot here individually, because I know very well the problems you're up against. But I would hope the Department would make a real effort to lift this OMB restriction on what you really want to do, to face up to an important agricultural and shipping problem.

Mr. SCHRADER. Senator, we do have a number of questions on the bill specifically as to how it would affect certain areas.

For example, in States such as Montana and North Dakota, where the production is less per acre, and where the production areas are spread out over a much wider area, it may prove that this concept will not work.

Also, there are no multicar rates currently in effect—well, there are some in Pierre. But other than in Pierre, S. Dak., there are no multicar rates, and apparently there will not be with this legislation. I am not certain that the railroads would institute multicar rates.

We don't know what the effect of the trucking into the subterminals will have on the rural roads and bridges. Here, I guess, is where the planning—

Senator MCGOVERN. You know, that's the whole point. I don't know whether it will work, either. But it would seem that the expenditure of \$5 million to look at this problem all through the farm belt, and to do some careful analysis and planning studies would be well worth \$5 million. My hunch is that the plan will work. I don't know that, but that's why you have to have the planning money, and some kind of mechanism for the local elevators, to the local shippers, the farmers, the farm organizations, the commercial organizations, the banks, other groups that are interested, some way that they can get together and marshal some expertise in the field and make a judgment as to how best we can move on it.

I think it is the uncertainty about how best to structure this effort that makes the strongest case for a few dollars in planning money. Would you agree with that?

Mr. SCHRADER. Yes, sir.

Senator MCGOVERN. Mr. Chairman, I have no further questions.

Senator ZORINSKY. I have a final question.

Mr. Schrader, if you lose the business in the industry loan program to EDA, what happens to your memorandum of understanding? Do you think EDA would be as sensitive to rural transportation needs?

Mr. KAYE. Sir, if I may, the process by which we got that agreement is currently being amended to include EDA. I would feel reasonably certain that within a very short time there would be a tripartite agreement.

Senator ZORINSKY. Thank you.

I think it was last year when we got an additional appropriation—through the Senate we asked for \$3 and got \$5 million on the grasshopper problem. From the looks of things right now, there's a possibility of another problem, but it is unlikely to be as severe as last year. Maybe the grain cars can be as serious as grasshoppers at some time. And the money is there.

I am sure there are dollars in other transportation funding in the Department of Agriculture. A bill of this merit, that will go some dis-

tance in resolving an annual problem that we have with agricultural transportation, I think requires all of us to put a little additional effort into taking that step toward a permanent solution of the grain car problem. It's going to be here, as I said to Mr. O'Neal, after you and I are gone, Mr. Schrader, and after Bob Bergland is no longer here, if we don't take the opportunity to do something about it now.

Senator McGovern certainly has spent much time in answering that phone year after year. I have only been here 2 years, so I've been in the process of answering that phone only for 2 years. You get to know the people with the railroads very personally when you start calling them for requests from your constituents about grain cars.

I know there are other problems confronting us also that need to be resolved, and I think this is an opportune time to start helping the farmers of America ship their grain.

Senator McGovern. Would you yield on that, Mr. Chairman?

Senator ZORINSKY. Certainly.

Senator McGovern. Mr. Chairman, there is no question in my mind that Mr. Schrader and his colleagues want to do something about this problem. I am wondering if it would be appropriate to ask if Mr. Schrader would submit alternative proposals as to how we can achieve the objectives within the constraints that the administration is operating under, and maybe give them a couple of weeks to come up with some alternative ways of achieving the same purposes.

His testimony says they can do some of this under existing authority. If they can, it's fine with me. I have no particular pride of authorship in the legislation. What I am interested in is results, and if the Department can find a way to do the same thing without additional legislation, I would like to see it.

Senator ZORINSKY. Well, the record will be kept open for 2 weeks. Would that be sufficient time to come back with your recommendations?

Mr. SCHRADER. We'll do our best.

[The following information was subsequently submitted by Mr. Schrader:]

**FEDERAL FINANCIAL ASSISTANCE AVAILABLE FOR PLANNING OR CONSTRUCTION OF
SUBTERMINAL FACILITIES**

U.S. DEPARTMENT OF TRANSPORTATION

Section 5 of the Department of Transportation Act provides for comprehensive rail assistance to States for planning, rehabilitation, and subsidy for local rail service continuation. It is a Federal-State cost sharing program with the Federal share set at 80 percent.

The fiscal year 1979 funding is \$67 million, apportioned by formula to the several States. Each State may spend up to 5 percent of its total entitlement (\$100,000 minimum) for planning purposes and preparation of the required State Rail Plan. Total planning money available in fiscal year 1979, including carry-over from prior years, is \$7.3 million.

Planning for subterminal facilities is a permissible application of Federal rail planning assistance. For example, in South Dakota, where the State Rail Plan is presently being revised, subterminal facilities planning is an integral part; at least six sites are under consideration by State planning officials. Over \$200,000 in planning assistance has gone to South Dakota; \$162,000 is yet available out of fiscal year 1979 allocations.

Beginning in fiscal year 1980 the State allocations of Federal funds under Section 5 of the DOT Act will shift to favor relatively the midwestern States.

The Local Rail Service Assistance Act of 1978 amended the allocation formula to base it primarily upon the number of miles of line in each State potentially subject to abandonment. This change will have the effect of favoring the Granger States, where the threat of abandonment is most ominous, and where the subterminal concept has the greatest potential application. (Source: Federal Railroad Administration, Office of State Assistance.)

U.S. DEPARTMENT OF AGRICULTURE

While the DOT programs described above deal primarily with Federal-State intergovernmental relations, the programs of the Farmers Home Administration (FmHA), USDA, provide direct assistance to the private sector in the form of loans and loan guarantees. This statement has been prepared by the Office of Transportation, USDA, in consultation with the FmHA, and reflects the views of both agencies.

FmHA is conscious of the importance of transportation to rural economic and community development. In the past it has made both Community Development and Business and Industry loans to help rehabilitate rail lines and assist rail shippers to utilize rail transport. Since the beginning of the B&I loan program, over \$42 million in loan guarantees have been made for transportation and transportation related facilities, including farm product warehousing facilities.

FmHA has recently entered into a cooperative agreement with the Federal Railroad Administration, DOT, to assist in the construction of viable transportation facilities, which would include the subterminal facilities defined in S. 261. Pursuant to this agreement FmHA has undertaken to emphasize to our State offices the need to publicize to likely applicants the eligibility of transportation related activities for loans under our programs, including subterminal facilities.

The increasingly severe rail situation leaves us uncertain as to the universe of need for the assistance we can provide. Our loans must be based on sound economic analysis and feasibility studies. Under our agreement with FRA, we have notified our State offices that such projects are to be included in the public service facility category and given appropriate priority. And we do expect to provide an increased level of loan activity in fiscal year 1979 and subsequent years. However, we cannot, in justice to our total program, provide a realistic target goal for loan activity at this time. Rather, we have already taken steps with FRA to bring together our State officials and the designated State Rail Agencies so that the programs can work together.

In those states where the subterminal approach seems profitable it is anticipated the necessary studies will be conducted using DOT's planning assistance, with our legislation and policy in mind. Our offices will cooperate in developing the analysis and studies so that they may become the basis for loan applications. If the number and size of loans exceed our authority, we will have sound data on the universe of need. This will be informative to the Administration and Congress in setting future levels.

Since it is possible that the B. & I. program may be transferred to EDA, we are working on an amendment to the FRA agreement which will commit EDA or any successor agency to the agreement and to follow through on applications on file with FmHA. In this way there should be no delay in providing loan assistance.

Senator ZORINSKY. Thank you.

Mr. SCHRADER. Thank you very much.

Senator ZORINSKY. I would like to call as a panel Mr. John Ingram, the president of the Rock Island Railroad from Chicago, Ill., and Jens Jensen, the the assistant vice president of market development and pricing, the Milwaukee Railroad, Chicago, Ill.

Mr. Ingram, if you wish you may summarize your prepared text, or read it in full. Regardless, your statement will be included in the record in its entirety, and likewise for Mr. Jensen.¹

¹ See p. 68 for the prepared statement of Mr. Ingram.

**STATEMENT OF JOHN W. INGRAM, PRESIDENT, CHICAGO,
ROCK ISLAND & PACIFIC RAILROAD**

Mr. INGRAM. Thank you, Mr. Chairman. I do have some brief remarks I would like to make.

I want to thank you first of all for inviting me to testify on S. 261, the Agricultural Subterminal and Storage Facilities Act of 1979. As the Agriculture Committee is well aware, the Chicago, Rock Island and Pacific—known colloquially and on the sides of our freight cars as “the Rock”—is predominantly an agribusiness-oriented railroad. We operate in the Mississippi Valley and to the foothills of the Rockies, from Minnesota to the Texas gulf coast. Forty-five percent of all agricultural employment and 50 percent of all farm income in the United States is derived from this territory.

We are deeply involved in the movement of export grain, and we are similarly relied upon for the movement of substantial amounts of fertilizer and other agricultural chemicals and fuels into farm country from the gulf coast.

I mention these points because “The Rock” is acutely aware of the difficulties inherent in providing transportation, at a profit, for commodities that are produced ubiquitously, and which, at the outset of their trips to market, are marshaled over a network of branch lines that, one, involve relatively light densities of traffic, and two, are almost exclusively agricultural lines.

I think this is an important distinction that must be realized in Washington. The Federal Establishment learned a good bit about certain railroad problems in the industrial Northeast in recent years during the collapse of the Penn Central and the birth of ConRail. There are now a number of Government rail analysts who are quite expert at the analysis of city-centered transport, the kind that they have in the Northeast, as opposed to the ubiquitous disciplines that must be utilized in farm territory.

Consequently, there is a healthy measure of expertise here regarding the movement of, say, steel from Pittsburgh to Detroit, or people from Boston to Washington. I regret to say that the rail problems in the Midwest have not yet received the intense scrutiny given to the Northeast situation a few years ago, and, of course, the Northeast problem is not the same as the Northwest problem.

While tentative starts are being made, there is no concerted effort to find out how best to serve relatively light-density farm territory. Rather, the bulk of the analysis done so far seems to rely on the precept that rail service simply cannot be expected to earn its way gathering freight at the extremities of its tracks, and that someone else, specifically trucks, will have to bring agricultural commodities to central collection points where rail can then be used only for heavy-density, unit-train-type operations.

That is not entirely fallacious if nothing else changes. That is probably what we will come to. And there will be an added cost to farmers. Our shippers estimate that they incur additional costs of about 5 cents per bushel for every 10 miles of truck transport they are required to use to get to an adequate railhead.

S. 261, however, can take us in the direction of altering this less-than-happy prospect. Of course, I would be less than honest if I testified that this bill by itself will meet the needs of mid-America's agribusiness. It can, but probably only if a number of changes that cannot be legislated are brought about by the railroads themselves.

S. 261 calls for access to financing for the construction of transient storage facilities and multimodal terminal facilities that would enhance the efficient receipt and shipment of agricultural commodities. This calls for the ability to handle and load at least 20 cars, or roughly 2,000 tons of grain.

The legislation would further provide for loans that would cover the long-term lease or purchase of rail rolling stock, including locomotives. We think this is a very good idea, for the simple reason that sometimes the financing of equipment necessary and the type of equipment necessary to operate on branch lines is somewhat difficult because it is not standard equipment. Any time you get into nonstandard equipment, financing becomes a difficult situation, not impossible, surely, but difficult.

Most importantly, the legislation very properly mandates a full measure of local and regional planning, and frankly, I don't think we need Washington telling mid-America precisely where transient storage and multimodal terminal facilities shall be located. So it seems to me a very good idea that this planning is at the local level.

The bill should not, and does not, create intraregional competition for long-established local businesses. Indeed, it encourages them to upgrade and improve, which again I think is a very good idea.

Mr. Chairman, let me interject here that in preparing the testimony I had the advantage of working with what I understand to be some recent revisions in S. 261 which have been suggested by the staff. This update, I am glad to say, emphasizes the need for thorough regional planning, and I think it is vital that all interests be involved in planning. I am especially pleased with the concept of the Plan Review Commission as described in section 4(b) of the staff revision.

If I could make one suggestion regarding the review commissions, it might be helpful to require in their membership the carrier or carriers that will serve the new subterminal. And while the phrase "and other interested individuals" would conceivably cover this, it gives no assurance of carrier participation. I think involvement of the carrier or carriers would be essential for the success of the operation.

I have one other minor point regarding section 4(b) of the staff draft. I bring it up because the matter of local planning is paramount. Would there be a plan review commission for each State or each region, or would there be separate commissions for each project? I bring that up only because of our experience with the State of Iowa branch-line rehabilitation program, which has been very successful. In that case, there is a separate analytical effort made for each specific project, but rather than a review commission in Iowa's case, each proposal for upgrading must be agreed to by the State, the railroad, and the shippers involved. It has worked very well and it has resulted in improvements that are used, not simply admired.

There are some concerns that I have heard expressed about the capability of railroads moving agricultural commodities effectively,

even when the traffic is handed to us on a silver platter. I respectfully beg to differ with these concerns.

I mentioned earlier that there are a number of institutional and traditional aspects to railroading that should change if the gathering of grains and other crops is to be done effectively in lighter density territory. I am talking about how you organize the transportation into such a subterminal. We have done a lot of experimental work along these lines using small crews, small trains, and so forth, shuttling back and forth from the country elevator to subterminal elevator. We find that this works. We have done it cooperatively with our unions and we are now involved in collective bargaining negotiations with our unions to make such experiments permanent.

I have a pamphlet with me that describes some of the experiments we have engaged in, and if you're interested, I would be glad to provide it and make it part of the record.

In summary, Mr. Chairman, I would like to applaud both the intent and content of the bill. For the agricultural community to have cost-effective transportation and for the railroads to be able to do that which we do best—which is move more than one car at a time—we must all accept the necessity of certain change in the way commodities first enter the transportation matrix.

S. 261 is a positive step in the right direction. I think given the safeguards that are built into the bill, we see no danger of unfair competition to present elevator operators, no coercion of railroads to perpetuate chronic money losers, and a positive step forward in negotiating that long and sometimes bumpy road from farm to market.

I want to thank you for the opportunity to be here, and I would be glad to respond to any questions.

Senator ZORINSKY. Thank you, Mr. Ingram. We appreciate you taking the time to come here, especially since it's difficult to get reservations on the airlines. Thank you very much for being here.

Mr. Jensen, would you like to make a statement, and then we will ask you our questions as a panel.

**STATEMENT OF JENS C. JENSEN, ASSISTANT VICE PRESIDENT,
MARKET DEVELOPMENT AND PRICING, CHICAGO, MILWAUKEE,
ST. PAUL & PACIFIC RAILROAD**

Mr. JENSEN. Yes, sir; I have a prepared statement, and I will read it.

My name is Jens C. Jensen. I am assistant vice president, market development and pricing, for the trustee of the property of the Chicago, Milwaukee, St. Paul & Pacific Railroad, the Milwaukee Road. My responsibilities are the pricing and marketing of transportation for grain, grain products, and foods. I have held this position for the past 6 years. I am honored to have this opportunity to present my views to this subcommittee.

The Milwaukee Road has a deep interest in the proposed legislation, the Agricultural Subterminal Facilities Act of 1979. Historically, bulk grains—corn, wheat, barley, rye, soybeans, sorghum, oats, et cetera—have been among the most important commodity groups for which the Milwaukee Road provides transportation services. In 1978, the Mil-

waukee Road carried over 5½ million tons of bulk grain. This traffic represented some 15 percent of the total tonnage for the year.

The Milwaukee Road would favor any concept that would increase the efficiency of rail transportation of bulk agricultural commodities. I believe that the proposed legislation would do much to enable railroads to maximize the efficiencies that are inherent in rail transportation.

With some exceptions, such as transportation to domestic milling facilities, most of the bulk grains handled by the Milwaukee Road move from production areas either directly over the Milwaukee Road to export terminals, via the Milwaukee to barge facilities on the Mississippi, or to interchange points with other railroads for final delivery to various Gulf ports.

A sizable part of this volume originates at smaller country elevators and moves under single-car rates. But an increasing portion moves in multiple-car shipments and in unit trains from elevators which have the capability to load blocks of 25, 50, and even 75 cars in the time allotted under multiple-car rates. In some areas, these large facilities—subterminals, if you will—have replaced a number of smaller grain elevators.

I believe that one of the most productive ways to maximize the efficiency of rail transportation is through the use of assigned rail equipment to move large volumes of a specific commodity on a regular basis over a set route. I think the success of unit coal and unit grain train operations on many railroads, including ours, has amply demonstrated this point.

There are, of course, two central elements in such a transportation formula—the ability of the railroad to provide the required equipment and the ability of the originating facility to accommodate the multiple-car movements.

I have already noted that a large share of the bulk grains carried by the Milwaukee Road originates at smaller elevators and moves under single-car rates. However, I suggest that this pattern should not be taken to mean that the historic pattern of transporting grain is the most economical and efficient way to go. Rather, I believe that both marketers and transporters of grain are often locked into uneconomic and inefficient patterns by the limited storage and loading capability of many elevators.

That the owners and operators of some smaller elevators are interested in finding ways to counter these limitations is shown by the success the Milwaukee Road has had in developing rates and services that, in effect, allow smaller elevators to obtain the benefits of multiple-car shipments. Basically, what we have done is to develop rates and services that allow several elevators to load the cars required for a multiple-car movement. We have extended the advantages of multiple-car rates to elevators which, due to their physical limitations, would not otherwise have been able to participate in such movements.

What are the advantages of multiple-car rates? For the shipper they mean, in most cases, substantially lower transportation costs. But of far greater importance, the movement of bulk agricultural commodi-

ties in multiple-car or unit-train shipments results in a far better turnaround of equipment, which translates directly into improved equipment availability.

For the railroad, the benefits of multiple-car movements are improved car utilization, which in turn translates into better per-car-day revenues. Multiple-car rates produce a transportation pattern in which everyone benefits.

Many railroads are in the process of discontinuing service on non-contributing lines and line segments. Many of these lines are located in grain-producing regions. Most of the rail service on those lines follows the historic pattern which I have described as inefficient.

Would it not be far more efficient and economical for all parties concerned, where the economics are marginal, if a railroad could position blocks of 25, 50, or more cars at 1 or 2 subterminal facilities rather than deliver and then pick up the same number of cars at a much larger number of smaller capacity elevators?

It is conceivable that the development of such a storage, loading and transportation pattern could so improve the economic situation that a noncontributing line could emerge as an essential and viable route.

The subcommittee is aware that the Milwaukee Road is in bankruptcy reorganization. The trustee has indicated that if reorganization is to be possible the Milwaukee must sell off or abandon several thousand miles of its present railroad. The possibility exists that the Milwaukee, as an operating company, may have to withdraw from some of its historic grain-producing territory.

But I would point out to the subcommittee that should this be the case, the likelihood is quite strong that other operators will be found for those portions of the Milwaukee's present lines which the Milwaukee cannot continue to operate, if those lines are, indeed, essential to the public interest. The efficiencies inherent in the subterminal concept would enhance this likelihood. I view the question before the subcommittee as one of how to improve the efficiency of rail transportation in the overall, rather than one of how to operate to preserve the existence of any particular operator.

The Agricultural Subterminal Facilities Act of 1979 clearly addresses the need for the more efficient storage and movement of bulk agricultural commodities. The proposed legislation advances the means whereby large-volume storage and loading facilities could be constructed at strategic locations. The construction of such subterminal facilities at points on the Milwaukee Road in areas of heavy grain production and shipping will, in my opinion, enhance our ability to improve service, alleviate car supply problems, and move bulk grain to market in the most expeditious and efficient manner.

Such subterminal facilities can and probably will serve as an inducement for railroads and shippers to enter into contract rate and service agreements as recently authorized by the Interstate Commerce Commission in Ex parte No. 358-5—change of policy, railroad contract rates. Such contracts can assure adequate car supply and also assure the railroad of a continuing and consistent volume of business which are the factors needed to produce dramatic improvement in transportation efficiency.

The Milwaukee Road fully supports the concept of the Agricultural Subterminal Facilities Act of 1979. The Milwaukee Road is also ready and willing to work cooperatively with shippers and governmental bodies to arrange for multiple-car or unit-train concepts that will facilitate improvements in the transportation of agricultural products.

I thank you.

Senator ZORINSKY. Thank you, Mr. Jensen.

Senator McGovern?

Senator McGOVERN. Mr. Ingram, as you know, a major provision of this bill is that it provides, as you pointed out in your statement, for a comprehensive local planning effort to determine its feasibility and how best to structure it.

In that planning effort, it would seem to me that the railroads would play an important role in indicating the terms under which they could provide reliable and efficient service, and those requirements, in turn, could be built into the elements of the plan.

I wonder if you could just comment on that.

Mr. INGRAM. I certainly agree with that concept, Senator. I think it's very important that the local people who are actually involved in making these facilities work, do the bulk of the planning. I think we will be much better off in terms of their ultimate success if that happens.

I think the local operators of elevator facilities, grain companies, the railroads, and the people in the States that are very familiar with the local problems, are the best able to do this job.

We find that in the State of Iowa, where a similar process is gone through before branchline rehabilitation is done with State money or with shipper money, that this kind of a planning effort really produces a useful result.

Second, it is done with very little redtape and very little wasted time. Usually you can get together and discuss the economics of the project in a day or two and arrive at some decisions and start getting something done, rather than having a protracted process that sometimes seems to be part of the Federal Government's approach to life.

Senator McGOVERN. It is my understanding, Mr. Ingram, that as an experienced rail executive, you have developed a great deal of enthusiasm for the use of contract rail rates.

How would the subterminals lend themselves to contract rate agreements and what would be the possible benefits of that to the farmers, the shippers, and to the railroads?

Mr. INGRAM. I think the main benefit that could accrue to subterminal operators and farmers that are served by those subterminal operators is the ability to plan ahead and know the transportation capacity will be available.

One of the big difficulties in providing freight cars to agricultural commodities is that there is no way a shipper can now go to a railroad and say "yes, I will use the following number of cars for the next 4 or 5 years." It is unlawful to make such a contract.

If we can write the kind of contracts that would allow a railroad to go to a customer and say, "If you will load this car, 18 times a year for the next 5 years, I will acquire it for you," then I think we'll go

a long way to eliminating these perpetual car shortages that do so much mischief both within the railroad industry and within the farm community.

It is quite obvious, in all the discussions about car shortages, that if there are car shortages—and we know there have been many—that both the railroad and the agricultural interests suffer. The railroad suffers because it doesn't make the money from hauling the freight, and the agricultural interests suffer because they can't get their commodities to market.

If we could contract for the provision of these facilities over a long enough term to interest financial institutions in financing them, then I think we could go a long way to solving these kinds of problems.

Senator MCGOVERN. Mr. Jensen, the Milwaukee serves a lot of the wheat-producing areas, all the way from Minneapolis to the west coast. It is sometimes said that the subterminal concept don't work in those upper Great Plains States because of the low-density wheat situation.

What is your answer to that anxiety?

Mr. JENSEN. I think it would work, sir. I am not so sure—of course, low density may be a relative term. We have some loading stations up there today that load many, many carloads, even though they may only be a single-car or 5-car loader. We have many stations that are located close together that do that.

So, from the railroad's standpoint, I would not consider it a low-density type of movement. I believe a subterminal arrangement would work in that territory.

Senator MCGOVERN. I agree with that, but I just wanted to get that on the record from you.

Mr. JENSEN. When you talk about about low density—I don't know whether you're talking about bushels per acre or total amount—but what we see develop there certainly is enough on our railroad to justify subterminals.

Senator MCGOVERN. Thank you very much.

Senator ZORINSKY. Mr. Ingram, in your statement you said there is no reason to believe that subterminals, as they are described in S. 261, would pose a competitive threat to small country elevators.

Could you elaborate on that for us?

Mr. INGRAM. It has been our experience that where these things are built, with a good bit of local planning, and a good bit of control in their development by the people at the local level, that usually they are owned in some cooperative way by the local people, and the local people share in the profits that can be made through them.

They are involved in part of the planning effort; they are involved in part of the construction; they are involved in part of the operation. I think the important thing to remember about these subterminals, if they are going to work, is that the local people make them work. Quite obviously, they should be set up with the proper incentives so that the local people can do that.

I don't look at them as a destructive force. I look at them as an opportunity for both the local operators to make money in probably a better way than they have before, and for the railroads serving the areas to make money by producing the kind of transportation that

railroads can produce most efficiently. I think everyone benefits from this sort of operation.

It has not been my experience, in seeing this sort of development in the State of Iowa, that people at the local level suffer at all.

Senator ZORINSKY. Thank you.

Mr. Jensen, in your statement you indicated that one advantage of multiple-car trains is the better turnaround of equipment. Can you elaborate on that?

Mr. JENSEN. Yes; we have set up a number of systems, where we have some 25, 50, and 75 car rates. This, unfortunately, is not from the State of South Dakota, but in the States of Iowa, Minnesota, and a few points in South Dakota. Those trains can make turns to the gulf in a shorter time than can single-car shipments.

In addition to that, we have gone a step farther and have set up some arrangements, what we call minigrain trains of 20, 25, or 30 cars, operating from points in the States of Iowa and Minnesota to Mississippi River barge terminals. We have set those up to operate on a 2-day turn. In other words, there is one jumbo carload of grain in each car each day. That is extremely efficient, as you can well understand.

Senator ZORINSKY. Thank you.

Mr. Ingram, in your opinion, what are the prospects for utilization of subterminal concepts in the State of Nebraska?

Mr. INGRAM. We serve a small part of Nebraska, especially the lines through Lincoln, and we think that elevators such as those in Lincoln could be utilized elsewhere in the State. We don't serve the rest of the State of Nebraska, but I don't see any reason why the concept shouldn't be expanded to cover a greater area.

Senator ZORINSKY. Thank you very much, gentlemen, for participating.

Mr. INGRAM. Thank you.

Senator ZORINSKY. I would like to call upon Prof. Phillip Baumel, with the Iowa State University in Ames, Iowa, and Mr. John Harling, the president of the Omaha Bank for Cooperatives, of Omaha, Nebr.

Gentlemen, I'd like to institute a 10-minute limit on opening statements and remarks. If you feel you want to utilize that time to read your statement, fine, or if you wish to condense it and give a summary of it, that's fine. It will still be placed in the record as if read in its entirety, whatever you wish.

STATEMENT OF PROF. C. PHILLIP BAUMEL, DEPARTMENT OF ECONOMICS, IOWA STATE UNIVERSITY, AMES, IOWA

Mr. BAUMEL. If you will, I will read parts of my statement and summarize parts of it.¹

Senator ZORINSKY. As you wish.

Mr. BAUMEL. For the past decade or more, grain shippers and receivers have complained about rail car shortages, locomotive shortages, poor condition of branch lines, and slow rail car turnaround times. These problems have occurred simultaneously with continued deterioration of railroad company earnings.

¹ See p. 70 for the prepared statement of Mr. Baumel.

At the same time, the amount of grain moved off farms to markets has increased dramatically. The major increases have been to export ports. Most projections forecast continued increases in grain exports.

While a significant amount of the increase in export grain has been shipped by barge, the amount of grain shipped by rail has also increased. This increase in rail grain shipments has occurred during a period of declining rail car numbers and a shift from the 40-foot narrow door boxcar to the 100-ton jumbo covered hopper cars.

Most observers credit the efficiencies of multiple-car and unit-grain train shipments for the growth in rail grain traffic. The major reason for the increased rail carrying capacity of the multiple-car and unit-grain trains is the reduced turnaround times of these shipments. Records from approximately 2,000 cars leased by cooperatives in Iowa in 1977 and 1978 indicate that turnaround times from central Iowa origins to gulf export ports in multiple-car and unit-grain shipments are in the neighborhood of one-half the time required for a single-car shipment. Five- to ten-day savings are possible and are being achieved from central Iowa to Chicago markets.

In addition to the increased carrying capacity, the multiple-car and unit-train tariffs provide for reduced rates for shipping the larger volumes. At the current time, at the Ex parte 357-A rate levels, rate reductions on 75-car units from central Iowa are in the neighborhood of 12 cents a bushel under the single-car rates, and almost 8 cents a bushel under single-car rates to Chicago.

The rate reductions of this magnitude enable the elevator to invest in additional siding and load-out capacities to load the larger size shipments and to pay higher prices to farmers.

More importantly, the larger sizes of shipments have enabled the approximately 120 multiple-car shippers in Iowa to ship more grain with less cars than would have been possible before the development of the subterminal system. Moreover, these rates have enabled Iowa farmers to sell regularly in the world markets, and at the same time railroad companies report higher earnings.

Another major benefit of these rates have been to provide a viable alternative to elevator operators located on branch lines that cannot be economically upgraded to handle the 100-ton jumbo hopper cars.

The Farmers Cooperative Elevator Association at Roland, Iowa, is an example of a shipper located on a branch line that has used the multiple-car system to successfully adjust to rail abandonment.

In 1971, the Chicago and Northwestern Transportation Co. informed Mr. Vale Peter, manager of the Roland Cooperative, that the railroad intended to abandon the Roland branch line. After fighting the abandonment in court, Mr. Peter came to the realization that even if the line were preserved, the rapid reduction in the number of 40-foot boxcars would mean that the cooperative would have extreme difficulty obtaining any cars to run on the track.

After a series of information meetings with the cooperative members, the board of directors of the Roland Cooperative voted to build a new elevator on the main line 10 miles south of Roland. The new facility cost \$1.2 million, with 400,000 bushels of storage capacity, and rail siding for 50 cars, was completed in 1974. In 1976, 380,000 bushels of

additional storage were added, and the siding was expanded to handle 75 cars.

Despite a severe drought in 1976 and 1977, and the abandonment of the line serving the original Roland elevator, the subterminal has enabled the cooperative to increase grain volume 75 percent over 1974 levels, and more importantly, to pay 3 to 5 cents per bushel more to farmers than nearby elevators.

Mr. Peter indicated that the Roland elevator and the subterminal have both been filled during the harvests. After harvest, most of the grain is hauled directly from the farm to the subterminal.

I have a map in the statement indicating that farmers do not have to haul directly to Roland and then the grain is trucked back. I have an example of a farmer located 4 miles south of Roland. He must haul 4 miles if he is to go to Roland, 6 miles if he goes to the subterminal; thus the additional travel that he is required to make to deliver to the new subterminal is only 2 miles.

Under the assumption that the farmer must provide transportation equipment to go either to Roland or the subterminal, at \$1 per gallon gasoline prices, I estimate the additional cost of going 10 miles in a single-axle truck to be 2 cents per bushel, and in a 450-bushel truck, 1.4 cents per bushel.

Mr. Peter indicated that increasing amounts of grain are being hauled directly from the farm to the subterminal. He indicated that the cost of hauling from the original elevator to the subterminal is about 3.5 cents a bushel, and the cost of the extra handling is 3 cents.

The Roland elevator has leased 50 jumbo hopper cars. These cars are matched with 25 railroad-owned cars to make up the 75-car train. While there have been weather-related problems during 1978 and 1979, resulting in somewhat slower turnaround times, Mr. Peter indicated his cooperative has experienced fewer problems and the cooperative has been able to transport significantly larger amounts of grain than nearby elevators that are not using the subterminal system.

Mr. Peter originally indicated that there was some resistance by cooperative members to the idea of discontinuing the fight to preserve the branch rail line and to build the subterminal. Now, however, almost all members agree that it was a good move. They agree they must accept change in the way grain is transported, just as they have accepted change in the way they grow their grain.

Managers of other grain elevators in Iowa report similar or even more successful operations. The railroad companies report higher earnings, so the concept is useful to farmers, elevators, and railroad companies.

The subterminal concept is not unique to Iowa. A large number have been constructed in Illinois, Indiana, Ohio, and Minnesota. The concept is just beginning to be utilized in Nebraska, and it seems there is great potential for this concept in Nebraska.

Some members of the grain trade have expressed uncertainty about the value of this concept in wheat-producing areas where the density of grain production is less than in the corn-soybean producing areas. A few multiple-car rates have been published for wheat shipments

and a few elevators are loading multiple-car grain shipments of wheat.

One of these elevators is the Pierre Farmers Elevator Association at Pierre, S. Dak. This cooperative spent \$150,000 to provide additional siding for 25-car shipments for a new elevator located on a main line. Mr. Herb Sibson, manager of the cooperative, reported that his cooperative shipped several 25-car units of grain in 1978 from the Pierre elevator to Duluth and Minneapolis. The 25-car unit consisted of both railroad-owned cars and cars leased by the Grain Terminal Association.

At the present time the rate reduction from the single-car shipment from Pierre to the 25-car shipment is about 6 cents per bushel during the harvest season on shipments to Minneapolis and Winona, Minn. During the balance of the year, the remaining 46 weeks, the rate reduction is about 9 cents per bushel. On shipments to Duluth, these rate reductions are about 16 and 20 cents per bushel respectively. Obviously, these reductions are large enough to provide for loading facilities on a main line and for additional trucking by farmers to the subterminal.

It is fairly clear that the low density of wheat production will not support 75-, 100-, or 125-car unit trains from country elevators, but 25-car shipments are feasible. Thus, the subterminal system does provide an option for elevators threatened with rail line abandonment.

Most of the discussion of the subterminal system focuses on the problems of shipping grain out of grain-producing areas. The same concept can be used to receive grain to be fed to livestock and poultry. In dairy areas like New York, grain can be received by multiple-car shipments at an elevator, and then transshipped to the dairy or poultry farms by truck. Both grain and railroad industries would benefit on this type of a system.

The proposed bill provides for loan guarantees to build subterminals and to purchase equipment. It can be argued that cooperatives do not need this type of loan guarantees because the Banks for Cooperatives have provided loans for these types of investments. The Banks for Cooperatives have done an outstanding job of providing financing for farmers cooperatives. However, small independent elevator owners do not have access to these types of financing. If we wish the small independent elevator system to remain a viable part of the grain industry, it is important that this type of financing be made available to these firms to adjust to rail abandonment and to utilize the efficiencies of the subterminal system.

The economics of the subterminal system have been documented for the corn and soybean producing areas by published studies. These studies have established guidelines for investment decisions by local and groups of firms. Similar types of analyses are needed in other areas, and S. 261 would provide the needed guidelines.

Senator ZORINSKY. Thank you, Professor. We appreciate your testimony.

Now, Mr. Harling, you may proceed.¹

¹ See p. 75 for the prepared statement of Mr. Harling.

**STATEMENT OF JOHN A. HARLING, PRESIDENT, OMAHA BANK
FOR COOPERATIVES, OMAHA, NEBR., ACCOMPANIED BY JAMES
L. TOFT, VICE PRESIDENT**

Mr. HARLING. Thank you, Mr. Chairman.

I have brought Jim Toft, one of our vice presidents with me.

As you know, the Omaha Bank for Cooperatives is a cooperative lending institution that is part of the farmer-owned Farm Credit System. The bank is headquartered in Omaha, Nebr., and serves the States of South Dakota, Nebraska, Wyoming, and Iowa.

I do appreciate the opportunity to appear before this subcommittee to provide information relating to the grain storage and transportation problems confronting both producers and shippers.

The bank has had a considerable amount of experience already in financing subterminal facilities. The bank is owned by farmers and ranchers. We were created by Congress in 1933 to provide a source of credit to farmer-owned businesses which carry on marketing and purchasing functions for individual farmer owners. Farmers created the system to provide credit for agriculture not available from other sources.

We believe very strongly that a system of farmer-owned businesses is the foundation for building an environment that will enable the family farm to continue as a dominant production unit and a mode of life in rural America. In this regard, we have a direct interest in your efforts to provide relief from the reoccurring grain marketing and transportation problems.

I give a detailed outline of the situation and conditions as they exist in the four States within our district in my formal testimony. I would like to just summarize that.

In Iowa the subterminal concept is in operation. If anything, that State may now have more subterminals than necessary.

In Nebraska, on the other hand, as export opportunities expand, and production expands, and the west coast markets develop, the subterminal concept that exists in Iowa is moving rapidly into that State.

Currently there are at least two groups of shippers who are exploring ways to coordinate their marketing and transportation activities. One of these groups is located off the main rail line and will need to build a facility. The other group has adequate facilities located along the main line but is seeking to coordinate their marketing and transportation activities. They are going through the planning process right now. The financing arrangements will depend on the outcome of their economic feasibility studies.

The South Dakota situation is substantially different than Iowa or Nebraska. The western half of South Dakota does not have good access to markets. The State is highly dependent on the highway system for transportation, since the branch line situation is probably the poorest of any of the States that we serve. Despite these obstacles, there are some subterminal-type operations in existence today.

There are a number of factors that must be taken into account to evaluate the effect of S. 261. I would like to identify those now briefly and discuss them later with you if you so desire.

First: The unit-train concept has proven to be the most efficient and effective way of moving bulk commodities to market.

Second: As levels of production increase through irrigation and crop improvements, and new markets develop, the subterminal concept evolves naturally as it becomes economically feasible.

Third: Continued efforts to provide rail service to every shipper can only further aggravate the transportation problem and continue to disrupt the orderly marketing of products. Farmers have to absorb these higher transportation costs created by maintaining inefficient branch lines.

Fourth: Shippers located along branch lines will continue to resist the concept of subterminal shipping, as long as any hope remains for the upgrading of their rail. As a result, they delay development of alternative transportation methods.

Fifth: Many farmer-owned shippers have elected to take a positive approach to resolving the problem themselves. Several alternatives are available. They can formally merge or consolidate, organize a separate jointly owned firm, or merely reach a joint operating agreement and contract with each other for services.

It is important to point out that these joint ventures can include a combination of individually owned firms, corporations, cooperatives or others. Careful planning is necessary to avoid duplication of facilities, which creates an additional financial burden that farmers would eventually assume.

A specific example of this exists with the rural electric cooperatives. A generating and transmission cooperative in Iowa is providing power to several municipalities in addition to local distribution cooperatives who serve farmers. In addition, there is joint ownership of power generating units by cooperatives and public owned power companies.

Sixth: Firms on branch lines will continue an important function of receiving grain during the harvest period and feeding the terminal after the harvest is over. When they are willing to assume this role and discontinue resistance to the subterminal concept, they can again become part of the mainstream. We have seen the continued growth and expansion of facilities that do not even have rail lines.

With these points in mind, I think it becomes evident that the only orderly way of marketing the farmers' products is through a system of cooperation between shippers. During harvest, all facilities will receive grain. Once harvest is complete, the subterminal becomes the better market because of its strategic location and access to unit rates. As the shipping season progresses, farmers will tend to deliver their farm stored grain to the subterminal because of higher bids for their grain and availability of transportation.

When the excess farm stored grain has been delivered to the subterminal, the surrounding elevators on branch lines become the main source of supply. They become the feeder units which take up the slack and enable the subterminal to ship unit trains on a year-round basis. This maximizes the use of railcars and satisfies guaranteed minimum shipping requirements.

This concept works best when all these factors are in place. I think most of the facilities are already in place in many parts of our dis-

strict. Farmers have demonstrated that they are responsive to economic opportunities and will provide the capital to build facilities where they are needed. Sources of credit are available for economically feasible projects. I think it is important that all sources of commercial credit be exhausted before Government becomes involved in financing. Government involvement should only be through a full faith and credit guarantee arrangement rather than direct loans.

We support the provisions of the bill which apply to the development of a plan. The location of existing facilities, coupled with economic feasibility, dictate the final plan. Management, financial resources, and condition of the rail lines are contributing factors. The subterminal planning is complete in Iowa and is evolving in other areas.

Time is of the essence. Farmers and ranchers have always faced adversity of one form or another, and have always met it with determination and progressive leadership. This has enabled them to survive in a highly competitive world. Farmer producers have demonstrated they are more responsive to change than the other segments of industry they have to deal with.

Through cooperatives, farmers currently have less than 10 percent of the grain export market. They are working hard to obtain the facilities and equipment needed to gather grain and deliver it to export markets.

Cooperatives have facilities and services that are designed for the benefit and convenience of the producer. Putting these facilities and equipment together have placed a great deal of pressure on cooperatives' financial position. Expanding farmer-owned export facilities and transportation equipment will add additional pressure.

A good example is a recent request from a large subterminal shipper for capital needs over the next 5 years. Their total projected requirements amount to \$20 million, of which \$8.3 million represents investment in transportation equipment.

The farmer-owners of this subterminal have provided the base capital necessary for normal marketing needs. Each year it becomes more difficult for them to absorb the cost of providing capital for transportation.

There appears to be an opportunity to design the provisions of S. 261 to assist farmers in providing the necessary capital for transportation through loan guarantees. Banks have access to loan funds, but elevators need someone to assume part of the risk because of the millions of dollars necessary to acquire transportation and export facilities.

The Farm Credit System has recommended legislation to the Federal Farm Credit Board for aid in this export effort. This can be accomplished by amending the Farm Credit Act to allow banks for Cooperatives to establish financial services that will facilitate the international transactions of farmer-owned cooperatives. And we'll be coming to this committee at a later date, Senator, with that proposal.

In summary, we support the financial assistance for planning where subterminal facilities are not already in operation. We also support provisions to extend financial assistance for subterminal and export

facilities, the purchase of railroad equipment and other related expenditures, only through the use of Government guaranteed loan programs.

Should actual Government loans be made, we believe stringent credit elsewhere tests should be required and the planning function should be utilized to prevent duplication of unneeded facilities and equipment.

That concludes our brief review of S. 261. If you have any questions, I shall be happy to respond.

Senator ZORINSKY. Thank you, Mr. Harling.

Professor Baumel, I think a legitimate question to be asked, and one certainly that came to my mind in the early preparation of this bill, was one that possibly you have had some experience in observing the handling of grain in the State of Iowa.

Are the potential savings accrued through the use of unit trains at the subterminal likely to be offset, or even outweighed, by the increased cost of trucking grain to the subterminal?

Mr. BAUMEL. On grain that moves directly from the farm to the subterminal, if you assume that the farmer must, under all circumstances, provide the transportation equipment, then the only additional cost that he incurs to get that grain to the subterminal is a variable cost of trucking that grain. The variable costs are basically fuel, oil, tires, and driver's time. Again, using the data I presented in my testimony, even at \$1 per gallon fuel for single-axle trucks, or tag-axle trucks, the cost ranges from about 1.4 cents to 2 cents per bushel to haul 1 bushel an additional 10 miles.

With the kind of rate reductions that are available on multiple-car shipments, there is enough money in those rate reductions to pay for that additional trucking, to pay for the upgrading or building of facilities, and in most cases have additional money left over to pay the farmer higher prices.

I receive reports on prices paid by grain elevators in Iowa. While this is not always the case, the multiple-car shippers generally are paying farmers somewhere between 2 to 4 cents a bushel more than single-car shippers. I have seen as much as 19 cents a bushel additional on soybeans.

But the key thing is that it does provide significantly increased carrying capacity to move the grain out.

Senator ZORINSKY. Thank you.

The Agricultural Subterminal Storage Facilities Act is primarily intended to provide a means for planning and establishing efficient temporary storage for grain, but if the subterminal system is to operate efficiently over the long run, it also must be able to handle incoming shipments of fertilizer and other bulk commodities.

Can you comment briefly on the experience of Iowa in that area?

Mr. BAUMEL. We have not had much experience on backhauls on the multiple-car shipments. Obviously, if we have cars to move grain out, we can use those cars to move fertilizer in, and the reduced turnaround time on the grain shipments, could be used to bring fertilizer in.

There are some economies of handling grain at these larger sized elevators, and certainly this is an efficient and economic way to transport fertilizer to elevators or fertilizer dealers that have had their rail line abandoned.

Senator ZORINSKY. Thank you.

Mr. Harling, you assert the country elevators will have and will continue to have an important role to play in conjunction with the operation of subterminals, even when such country elevators are not located on branch lines.

Can you elaborate on that remark more?

Mr. HARLING. Yes; as I mentioned in my comments, these country elevators will become feeder units for the subterminals during the off harvest season time, and they will play an important role, particularly at harvest time, in receiving the grain directly from the farms. The farmer is interested in getting that crop out of the field as rapidly as he can, particularly with the increased number of acres that farmers are now handling, the high cost of equipment that they have. They want to utilize that equipment as efficiently as possible, and they don't want to spend a lot of time waiting in line to get their trucks and wagons unloaded. So, they are interested in getting that grain out of the field into the elevator, into storage, as rapidly as possible, and therefore will use the closest elevator to them to do that.

Then those elevators are filled up and that grain goes into storage until the subterminal unit is in a position to ship that grain, and it moves then from the country elevator to the subterminal.

Senator ZORINSKY. Mr. Harling, you said that further expansion of the export market is the key to raising farm income while reducing our trade deficit. I don't think any truer words were ever spoken. I certainly agree with you on that concept.

How important is the utilization of subterminal concepts to the efforts of the family-owned farms and farmer cooperatives to increase export sales?

Mr. HARLING. Well, I think we have to look at the entire marketing chain and do everything that we can to balance this. Right now we have a situation in Iowa that I think can be described as adequate subterminal facilities, but inadequate methods of moving that grain from the subterminal to the ultimate consumer, whether that be the domestic market or whether it be the export market.

We find ourselves in a situation where, even with 100-car unit trains, the so-called "Colt 45" concept that runs a shuttle train back and forth to the gulf, there is still inadequate port facilities to receive that grain. So, you have a funnel with a narrow spout at the end of it, and that backs the grain up all the way back to the farmer, and the farmer ultimately absorbs that cost of carrying the grain in storage, the interest that accrues on that, and the storage costs that accrue on that. So, by improving that flow of grain all the way through to the export market, then the farmer gets that benefit in a higher bid for his grain.

Senator ZORINSKY. You mentioned the subterminal concept is rapidly moving into Nebraska. Can you explain that comment?

Mr. HARLING. We have had a number of groups of elevators who have approached us, and we are working with them in the planning process now to either update, modernize their facilities, so that they can load unit trains, or to build new facilities to accomplish that same purpose. This has been brought about by the improved freight rates to the west coast by virtue of unit train rates.

Senator ZORINSKY. Thank you.

Senator McGovern?

Senator MCGOVERN. Thank you, Mr. Chairman.

Professor Baumel, I think of you as the father of the subterminal grain idea. I think the pioneering work you have done on that in Iowa speaks for itself. In any event, your testimony at our Sioux Falls hearing last summer, when the Joint Economic Committee was looking at the whole Midwestern rail problem, was the thing that got me seriously interested in this possibility.

It has been said that the subterminal concept has been fully, or almost fully, applied in the grain producing States that can use it, but the remaining States have lighter density crops and it wouldn't be feasible to operate there.

What do you say to that contention?

Mr. BAUMEL. Well, I go back to the example of the Farmers Elevator Association at Pierre. They are using the concept, and they are one of a few elevators in the wheat area that are using the concept.

I received data from the Chicago Northwestern on the turnaround times on 25-car shipments in 1978. These turnaround times are in the neighborhood of 14 days to Minneapolis-Duluth-Sioux City. The Chicago Northwestern reported about 25 days turnaround times for single-car shipments to the same destinations. So, that this concept would enable the wheat-producing area to ship twice as much grain with the same number of cars.

I think that if the concept were fully implemented in the wheat-producing areas, so that wheat millers and exporting facilities were equipped to handle multiple-car shipments, so that more than one elevator in an area were able to ship 25-car shipments, the railroad could put 2 or 3 of these 25-car shipments together and reduce that turnaround time further, and increase income to the wheat farmers.

There are problems associated with implementing this concept. But I think the benefits would certainly outweigh the problems that would be encountered.

Mr. Sibson of the Pierre Farmers Cooperative Association said that he believes it's the way to go, although he recognizes, of course, that there are problems.

Senator MCGOVERN. We're going to have testimony here very shortly, Professor Baumel, from the president of the South Dakota Farmers Union, Mr. Radcliffe, who has given a lot of thought to the problem of boxcar shortages and other transportation problems that we have in our part of the country. He is going to testify that the grain transportation problem centers almost solely on the car shortage problem.

From your experience, do you think we can alleviate the grain shipping problems simply by an adequate supply of cars?

Mr. BAUMEL. My personal opinion is that simply adding additional cars to the rail fleet will not solve the grain transportation problem. We must be able to move this grain at a cost that will keep us competitive in world markets. If we have enough cars to meet peak demands, we will have cars sitting around 6 or 8 months out of the year, and someone must incur the cost of those cars while they're not being used.

The railroad companies operating in South Dakota certainly can't afford to do that. I am not sure the farmers can afford to do that. I think if the Government were to assume it, they could spend their money much better in developing an efficient system that would benefit everyone.

No, I don't think the answer is simply adding cars. The answer is better utilization of existing equipment. We do need some increased car numbers, no question about that. We need an increased number of locomotives; we need improved main lines so that the trains can move rapidly to the ports and to the processors. We need improvements at the ports and processors that can be quickly loaded and unloaded. Cars then can be used to move the grain on from the processors to the consumers, or go back to the elevators to go to the export ports.

The entire system must be improved, rather than just adding cars.

Senator McGOVERN. Mr. Harling, in your testimony you indicated that your bank has recommended legislation to allow banks for co-operatives to become involved in the financing of export facilities, and also to become involved in the international transactions of farmer-owned cooperatives.

Is it your feeling that this legislation now before us, S. 261, could be modified to facilitate that kind of need?

Mr. HARLING. Well, the amendments to the Farm Credit Act will include many other things in addition to the export segment of that. The proposed legislation will include amendments for the other banking groups, the Production Credit Associations, and for the land banks. So it is my opinion that we have two separate issues here, although the export provision of the Farm Credit amendments complements what you are attempting to do with this bill. So I think they're complementary, but perhaps separate.

Senator McGOVERN. I wonder if you would be willing to work with this committee on any modifications that you have in mind that you think might strengthen the bill.

Mr. HARLING. Yes, we certainly would, and we will.

Senator McGOVERN. Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you very much for being with us this morning.

Senator McGOVERN [presiding]. Our final panel, if they would come forward now, includes Mr. Ben Radcliffe, the president of the South Dakota Farmers Union; Mr. Chuck Fields, representing the American Farm Bureau here in Washington; Mr. Andrew Nelson, traffic manager of the Grain Terminal Association, St. Paul; and Mr. Thomas Feldman, of the West Central Cooperative of Iowa.

Gentlemen, we welcome you to the committee. Senator Zorinsky will be back momentarily. Proceed in any way you see fit.

STATEMENT OF BEN H. RADCLIFFE, PRESIDENT, SOUTH DAKOTA FARMERS UNION, ACCOMPANIED BY RUBIN JOHNSON, NATIONAL FARMERS UNION

Mr. RADCLIFFE. Thank you, Mr. Chairman.

I have a relatively brief statement that I think I will go through here.

I am president of the South Dakota Farmers Union, and my home is in Huron, S. Dak. I am here today to testify on behalf of the 15,000 family farm and ranch members of the South Dakota Farmers Union and the more than 250,000 farm families who belong to the National Farmers Union.

Also with me today is Mr. Rubin Johnson, head of the legislative services of the National Farmers Union, who will be willing to respond to any questions that you might have for him.

I would like to congratulate the chairman for scheduling this important hearing today, and I would also like to pay special tribute to our own senior Senator from South Dakota. For many years now, Senator McGovern has been the leading congressional voice pointing to the disaster which would be the natural result of continued neglect of our national rail system. It is indeed a tragedy that this Nation has not joined Senator McGovern's concern and has not seemed to care what happened to railroads out in the farm belt. I'm afraid that we are now reaping the bitter harvest.

I cannot place too great an emphasis on the crisis in agricultural transportation we are now facing out in South Dakota. As you know, the Milwaukee Road, our State's leading agricultural carrier, is presently in the midst of bankruptcy proceedings. Continued service of any kind of the Milwaukee now hangs by a slim thread, and we are confronted with the potential loss of up to 75 percent of our existing rail mileage. Track conditions and service on the Milwaukee line, as well as our other leading carrier, the Chicago and Northwestern, are appalling.

Last year, Secretary of Agriculture Bob Bergland declared that railcar shortages affecting the Midwest were the "worst in history." That was true, but the sad fact is that the situation has since gone from bad to worse.

I would like to take just a minute to relate to you the results of a spot survey of grain elevators in South Dakota conducted by our staff earlier this week. While the opinions stated apply specifically to South Dakota, I think they are reflective of the overall situation presently existing in the farm belt.

We talked with elevator managers throughout South Dakota, located on both branch lines and main lines served by the Milwaukee, the Chicago and Northwestern, and the Burlington Northern. And their opinion was virtually unanimous that the current railcar shortage is the worst we have yet faced.

I have some extensive notes that are really not adequate to present for the record, Senator, but I will make them available to your staff.

Senator MCGOVERN. Our hearing record will be open for a couple of weeks.

Mr. RADCLIFFE. Thank you.

Ronald Alberts, the manager of the Farmers Elevator Co. at Canton, S. Dak., said that the elevator has received just two boxcars since the beginning of the year. They usually get from 110 to 130 cars per year. The Farmers Cooperative Association at Thunder Hawk, S. Dak., reports a similar story. During the month of March, they received three boxcars, one of which was badly infested with live rats, they said, and both of these elevators are located on Milwaukee main lines.

Elsewhere the story was the same. The Farmers Cooperative elevator at Kennebec got seven cars. The Midland Co-op Marketing Association has received 28 cars since January 1. The Potter County Grain Co. at Gettysburg has had 11 cars.

Most elevator managers have little hope for better service in the upcoming months. But they have their orders in. The South Dakota

Wheat Growers, who operate several elevators in the north-central part of the State, have ordered 562 cars. The Pierre Farmers Elevator Association, a modern, fast-loading facility located on the Chicago and Northwestern line, is waiting for 4-unit trains or about 100 covered hopper cars. They're getting virtually no cars, and their elevators are filled. The elevator at Thunder Hawk has a standing order for 50 cars.

Some other managers have just thrown up their hands in disgust. Midland elevator manager, Leroy Hunt, told us he has cut back orders to just 25 or 30 cars. Why order cars that will probably never be supplied?

The only alternative for grain shipment in South Dakota, and other farm States, is trucking. And trucking is not a satisfactory replacement.

To begin with, there simply aren't enough trucks available to meet the demand. In addition, diesel fuel shortages now showing up in South Dakota and other farm States may further worsen that situation.

The elevator managers we talked with also underlined the fact that it costs more to ship grain by truck rather than by rail. That's not only expensive for the elevators, but it's money out of the pockets of farmers, whose prices are already far below parity levels. Depending on the destination, trucking rates are now running anywhere from 3 cents up to 25 cents more per bushel.

Studies conducted by Leonard Poth of the University of South Dakota Business Research Bureau at Vermillion indicated that should South Dakota lose its rail system, the anticipated abandonment, the annual cost to farmers would be at least \$30 million per year. And that's in today's dollars. It doesn't include inevitable inflation.

That's where we are right now. It seems clear that unless we can make some major changes in our current transportation system, we may not be able to meet increased export demands. We may not even be able to move our production to domestic markets.

The specific focus of this hearing is the Agricultural Subterminal Facilities Act of 1979. As a part of an overall approach to the agricultural transportation dilemma, this proposal has some definite merit. It wants to say that we specifically endorse the proposed planning study, to see where we need to go.

We are concerned that any construction of subterminals as suggested in this bill put special emphasis on ownership by farmer-producers through their cooperatives. Farmers have spent more than a half century building up an effective network of local and regional cooperatives. Any program of Federal aid for construction of subterminals should embrace that system.

At this point I would like to suggest that the primary problem which we are confronted with today is not a lack of grain handling facilities; it is a transportation problem.

As a matter of fact, we now have numerous facilities in South Dakota that are capable of loading out unit trains. Such facilities are located at Lemmon, Thunder Hawk, McLaughlin, Selby, two at Aberdeen, Groton, Webster, Milbank, Redfield, Huron, Mitchell, Emery, Marion, Canton, Watertown, Pierre Brookings, Chamberlain, and

Kennebec. These elevators are all located on main lines of either the Milwaukee or the Chicago and Northwestern. Other substantial facilities are currently located on endangered branch lines.

We are also convinced that even more such elevators would be constructed if local cooperatives and other elevators could be assured of adequate railroad service. But, the unfortunate fact is that most of the existing elevators with unit train handling capacity simply haven't been able to get cars.

Proposals to build more such facilities have been complicated by the clouds of doubt that surround the future of even our main lines. One elevator association considered building a fast-loading house at Blunt, S. Dak., on the main Chicago and Northwestern line west to Rapid City. They were told by the railroad that it could not guarantee the future of the line from Miller, S. Dak., to Rapid City.

It is also important to voice the concerns of shippers who are located along or at the ends of branch lines. We recognize that all branch lines cannot and will not be preserved. But many of these shippers have made substantial and expensive improvements in their facilities, facilities that they are not now able to adequately utilize because of poor or nonexistent service by the railroads.

One such example is the Potter County Grain Co. at Gettysburg, S. Dak. Manager Jack Ryman told us that the co-op has a 1-million-bushel storage capacity, but because of lack of rail service and the shortage of more expensive trucks, "we might as well have a 60,000-bushel capacity."

As the Farmers Union sees it, we are faced with a crisis in the movement of agricultural commodities. Without a doubt, the construction of new facilities and expansion of existing facilities may be necessary, and the addition of low-interest Federal loan funds may be a positive step. But the bottom line is transportation. Ultimately shippers must have a firm contract by the railroads to supply rail cars on a dependable basis. There can be no real and effective substitute for an energy efficient and dependable rail network when it comes to moving farm commodities to domestic markets and export terminals. Until we deal with that question, there will be no solution.

We have included the National Farmers Union policy position on transportation adopted at our convention in Kansas City, Mo., last March in our statement as additional testimony.¹

Thank you, Mr. Chairman.

Senator McGOVERN. Thank you very much, Mr. Radcliffe. Your additional material will be filed as a part of the record.

I might just say, parenthetically, that we got your telegram on the diesel fuel allocation crisis in South Dakota and moved on it very quickly. I can't foresee the administration not making available through the allocation system the additional fuel for rural areas, where the planting and processing and movement of the Nation's food supplies has got to be the No. 1 priority. But I did appreciate the urgency of that telegram and the thoroughness with which it identified the shortages in our area.

I will come back to questions momentarily, but we would like to hear from the other panel members in order. Mr. Fields represents the

¹ See p. 78 for the position paper.

American Farm Bureau in Washington, and we would be happy to hear from him.

**STATEMENT OF CHARLES H. FIELDS, ASSISTANT DIRECTOR,
NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION**

Mr. FIELDS. Thank you, Senator McGovern. We are glad to be here to represent the more than 3 million family members of the Farm Bureau in the 49 States and Puerto Rico.

During the next few years the transportation industry in this country will face many changes. Most of us have for too long taken our food distribution and transportation system for granted. We are proud of the fact that we have the most efficient and productive agricultural system in the world, as demonstrated by the small share of the average family's income that goes for food, and we have heard said many times that we have the best transportation and marketing system in the world. However, the availability, costs, and quality of transportation are becoming serious limiting factors in our ability to market the volume of food and fiber needed to satisfy our domestic market and our growing exports.

In 1978, the Congress created the rural transportation advisory task force, which is charged with the responsibility of conducting an in-depth study of the transportation needs of agriculture. But we need not wait for the report of this task force to know that much of rural America, including major agricultural production areas, is facing a major restructuring of the Nation's rail system with the prospective loss of many thousands of miles of low-density branch lines.

While every effort should be made to identify those branch lines that can be economically viable in the future, and to develop plans to rehabilitate them, we must face the fact that many low-density lines will not continue in operation. This means that plans should be developed in an orderly fashion to adapt our present marketing system for bulk agricultural commodities, particularly grain, to the restructured rail system that is about to emerge.

This adaptation to change on the part of producers and others in the agricultural community will not be easy. Some farmers and others who have invested millions of dollars in marketing facilities located on low-density branch lines face the almost inevitable loss of rail service.

We believe the approach to solving this problem outlined in S. 261 is commendable and we offer these suggestions that we think will improve it.

Section 4 of the revised draft of the bill provides that the Secretary of Agriculture shall make matching grants available to any State or combination of States where a Governor or Governors apply for such a grant and that no grant shall be approved unless the State or region establishes a review commission composed of local producers, elevator operators, and other interested individuals.

The role of the review commission would be "to consider the information and analyses developed by the State or region in the development of a subterminal facility plan and to make recommendations regarding the State or regional plan." The commission would also

make recommendations "based on information developed in the plan for the most efficient location of subterminal facilities."

We recommend that the role of the review commission be strengthened by requiring the appointment of a commission as the first step in the planning process. The first job of the commission should be to determine whether or not there is a need for a planning process and an application for a Federal grant.

The bill should spell out in more detail the makeup of such review commissions. The majority of the members of such commissions should be representatives of the major producer groups in the State or region who are presently involved in marketing and transporting bulk agricultural commodities. The agricultural community involved should advise the Governor as to whether there is need for the kind of planning for subterminal facilities envisioned in this bill.

The review commission should be free to seek other sources of information, rather than relying solely on the information developed by the State or regional planning agency. The bill should provide that the Secretary shall make no loan or loan guarantees, as provided in section 5, unless the subterminal facilities plan meets with the approval of the review commission.

The bill could be strengthened by requiring that the planning process give due consideration to the overall transportation system in the State or region and future plans for the overall system including the adequacy of highways and bridges.

It is important that the bill make it clear that neither the planning process for subterminal facilities nor the loans or loan guarantees provided in section 5 are to be used to enhance the bargaining power of major buyers which already exists due to the small number of major buyers and the large number of producers.

These amendments would make the bill more acceptable to the agricultural community by assuring that those most affected by the ongoing changes in the transportation and marketing system have a major role in the planning process and in the development and ownership of any new facilities.

We appreciate this opportunity to present the Farm Bureau's views.

Senator MCGOVERN. Thank you very much for your testimony, Mr. Fields. I think some of these suggestions you have made for modifications, the committee will want to look at those very carefully. Some of them, it seems to me, would strengthen the legislation and we will want to look at those with great care.

Our next witness is Mr. Andrew Nelson, the traffic manager for GTA in St. Paul. You can proceed as you see fit.¹

STATEMENT OF ANDREW T. NELSON, MANAGER OF TRANSPORTATION RESEARCH, GRAIN TERMINAL ASSOCIATION, ST. PAUL, MINN.

Mr. NELSON. GTA, the Grain Terminal Association, also sincerely appreciates this opportunity to be present before this committee.

We are a regional co-op, owned by 200,000 farmers and their families. GTA markets grain for 600 country elevators in Minnesota, the Dakotas, and Montana. We are major users of rail transportation. Our

¹ See p. 79 for the prepared statement of Mr. Nelson.

grain goes to virtually all of the major export or domestic destinations in this country, and most certainly, we agree with other witnesses that a critical shortage of transportation throughout last year, and still continuing this year without any improvement, has unjustly deprived country elevators and farmers of deserved opportunities to market their grain.

The consequences of this shortage of transportation have been geographically very uneven, so that what you have from one time to another, month to month, is discrimination against areas, particularly rural areas, particularly the grain-producing States, because cars congest at distances from the country and we don't get them back.

There is no one simple explanation, we believe, as to why transportation has been scarce. The country is where the car shortage repeatedly happens and does the most damage monetarily to those farmers who can least afford the problem.

You have heard other examples, and we can offer you more if need be, in which at locations in the country, week after week after week goes by—sometimes months—without any rail cars whatever, and sometimes also without any trucks, so that farmers don't necessarily join in the congratulations that can be heard on how much grain this country exported last year. It has been an impressive record, but the pleasure isn't shared when the country elevator doesn't get cars to participate in this success.

Of course, the causes of the problem are so very diverse. It isn't easy to specify in just a few minutes where are they and what are they. They change with the weather, with markets, with the condition, the physical condition of one railroad, east and west. Sometimes it's mud slides, sometimes it is finances, sometimes it's union troubles. There are more explanations than these to offer.

We don't feel this is going to be a simple situation, one cause, one effect, one cure.

Our cooperative has invested very substantially, in terms of our own financial strength, in new facilities, more facilities, to ship and handle grain, unload it, weigh it, scale it. This has been about \$10 million a year invested by the Grain Terminal Association, year after year after year, the cumulative effect of which amounts to a very commendable contribution by our farmer-owners to do everything they can to make transportation more feasible, more practical, faster, and we are continuing that effort.

There are locations of ours in the country now where farmer boards of directors have authorized substantial new investments, millions of dollars of their own money, out-of-pocket, to build faster elevators. Truly, this is the subterminal concept, to get the grain into a good location, handle it fast, and get it out.

But nevertheless, with those good intentions, and with these personal sacrifices on the part of our people, the transportation doesn't get there where we are ready to ship.

We are equally prepared for the future, to go on committing resources like this for more construction, to meet competition. For example, southern Minnesota has 30 elevators capable of shipping unit trains. Most of them are farmer owned. And regrettably, with the lack of transportation to get the grain out of those houses, one of them has

bankruped and another has experienced substantial financial difficulties tantamount to bankruptcy. So it isn't universally true that bigger and faster elevators are going to meet our needs, if there isn't any transportation. And building them so far hasn't really created more transportation. We need much more.

In the same way, committing resources of our cooperative, we have assumed very large monetary obligations to lease railcars by the hundreds. This was one more action by our farmers to meet the transportation shortage. But those hundreds of cars, as expensive as they are to lease, are scarcely a drop in the bucket given the enormity of the nationwide problem.

So in conclusion, we do acknowledge that S. 261 very generously recognizes this shortage of transportation as a problem of ours. But we do respectfully insist that with respect to country subterminals we haven't seen a brief for additional financing by Government. We think the problem of inadequate transportation is much more extensive than that, and for the future these cooperatives for whom I'm speaking, GTA and our affiliates, our country elevators, will do everything we can to continue building a grain distribution system that meets the needs of our members. We will commit the resources that are and will be available to us.

We are most appreciative of the attention given by this committee to the other rather appalling dimensions of this problem. Thank you.

Senator MCGOVERN. Thank you very much, Mr. Nelson, for your testimony.

Our final witness today is Mr. Tom Feldmann of the West Central Cooperative of Iowa.

**STATEMENT OF THOMAS FELDMANN, MARKETING MANAGER,
WEST CENTRAL COOPERATIVE OF IOWA**

Mr. FELDMANN. Thank you, Senator. I will just read part of my statement.¹

In our opinion, the basic reasoning behind this bill, S. 261, is to secure for producers the best possible price for their grain. To do this, every economic efficiency should be used.

Rail transportation has an inherent economic advantage in moving large quantities over long distances. The railroad cannot efficiently compete with trucks on short- and low-volume shipments.

While rail transportation is fuel efficient on large, long movements, it is wasteful on short, small movements, such as many branch lines provide. No Government rule or industry desire can make light density branch rail lines profitable. To continue to be operated, they must be subsidized, either by the profitable segments operated by the same company, as is now the case, or by the Government. If railroads were allowed to charge rates high enough to cover their costs of operating and maintaining these branch lines, shippers would not pay these rates. They could truck to subterminals more economically.

It is our feeling that until railroads are allowed to abandon these unprofitable branch lines, or charge enough to cover their costs on these

¹ See p. 80 for the prepared statement of Mr. Feldmann.

branch lines; we cannot have a healthy, profitable rail system in the Midwest.

With this in mind, then, the construction of subterminal elevators capable of loading large quantities at one time, at well planned locations, will enable the transportation cost savings to be returned to producers in the form of higher prices for their grain, and still allow the railroads to operate profitably. Most Midwest railroads will agree that their most profitable grain business is unit trains.

However, these cost savings can be diluted if too many such facilities are built. The cost of building these facilities must be subtracted from the transportation cost savings, and duplication in an area or spacing too closely will increase this amount that must be subtracted.

Iowa has achieved a tremendous benefit from the subterminal system built over the last 7 years, but the savings would be greater and rail transportation more reliable if the planning work done by Dr. Baumel of Iowa State University had been more closely followed. There have been too many subterminals built in Iowa, and farmers have had to bear the cost.

We recognize that nothing is ever perfect, especially in economics, but it seems to us that a long-range plan identifying the truly viable rail lines and the needed subterminal elevators located on these lines can save producers many wasted dollars and increase the prices they receive for their grain. For that reason, we believe the bill would be a definite benefit for farmers.

Senator MCGOVERN. Thank you very much, Mr. Feldmann.

Mr. Radcliffe, you stress the point that any program designed to encourage location and construction of subterminals should be on the basis of cooperative ownership, wherever that is feasible.

As you know, the bottom line of this legislation is to protect the interests and to provide benefits for grain producers, and cooperative ownership is very much in line with that objective.

Do you feel the language of the bill ought to be strengthened on the point of cooperative participation?

Mr. RADCLIFFE. Senator, I think some of the changes that may have been made since the original draft do put the kind of strength that we believe should be in the bill to protect the farmer producer. I think we can make a good case in developing a transportation system for agriculture, a good case to insure that that system stays in the hands of the farmer producers, who is the person who provides the product and who ultimately gets the return yield of the benefit, or the disadvantage.

So we are pleased that in the bill you are emphasizing the need to keep control in the hands of the farmer producers as long as possible in moving the product.

Senator MCGOVERN. You mentioned the number of elevator shipping points in South Dakota that would be capable of handling unit trains. I know you are well aware that a number of those facilities you mentioned need to be expanded and improved to give them anything like subterminal capability.

I am just wondering if you are aware of that kind of upgrading and improvement that could be done under the authority of this bill.

Mr. RADCLIFFE. Yes, Senator. You are certainly right.

The number of loading stations that I referred to in my testimony, many of these stations need to be upgraded and rebuilt in some cases.

Some of them now are not able to load up the unit trains in a specified period of time which is normally considered appropriate for unit train loading. They do have the siding to accommodate the number of cars, and if the train only comes through once a week, I'm not sure it makes that much difference on whether they load out in 48 hours or if it takes longer than that.

But your point is well taken. Most of these stations that I referred to would need to be upgraded and could use the program if it was in place.

Senator McGOVERN. Mr. Fields, in your testimony you recommend the majority of the membership of the Plan Review Commission should be representatives of major producers in the State or region encompassed by the plan. And you also suggest that greater detail be provided on the makeup of the Commission, per se.

I am wondering if you're concerned, in the way the legislation is now drafted, that it doesn't provide that the producers will be adequately representative. So if you would want to submit recommended changes in the legislation at some point, can you do that?

Mr. FIELDS. I think if we simply provide that a majority of all of those planning commissions consist of representatives of producer interests, that that would satisfy our concern.

It indicates in the bill the various kinds of representation, without an indication of how the makeup would be. That was our major concern. We think the producer interests should be the majority on those commissions.

Senator McGOVERN. Also you advocate that the Secretary of Agriculture should be prohibited from making a direct loan or loan guarantee for subterminal construction unless it adheres to the plan worked out by the Plan Review Commission.

I take it that, in fact, you want to give the Plan Review Commission the final say in order to assure it will adequately serve the producers, as intended under the legislation?

Mr. FIELDS. That's exactly right. We know how much slippage can occur between South Dakota and Washington, D.C. We really want the major influence on this, the major decisions and so on, to be made by this group back here, who is going to determine what is needed and whether it should be needed and so forth. That's all we want to assure.

Senator McGOVERN. Mr. Nelson, I know you have had enormous experience in the whole matter of subterminal facilities and the movement of grain. Your testimony indicates you tend to view this legislation primarily as a financing mechanism for the construction of facilities of that kind.

I personally see the centerpiece of this bill as being the planning mechanism; that is, the opportunity that it sets up for local interests of all kinds, especially the producer and shipper groups, to be involved in the planning. Obviously, GTA has the necessary funds and resources to plan their own facilities, but what about these smaller operations further out from the main terminal?

Mr. NELSON. Well, of those 600 country elevators in our organization, I would like to answer you, Senator, that they are in good communication with ourselves in St. Paul. We try diligently to recom-

mend what they ought to do for their future, to help them with their planning. I think we are going successfully in that direction.

We are most certainly not all wise or all seeing, and GTA would not have sent anybody here today if we felt that we alone, by consulting with our people in the country, could solve a problem of this magnitude.

I think I am answering you, that we do have a planning effort in motion, and we believe the results have been as adequate as we could make them, but we need more transportation.

Senator McGOVERN. As I understand the thrust of your testimony—and I think it's very helpful to us—the heart of your concern regarding this legislation is that the subterminals cannot achieve the desired success unless the railroads provide more efficient rail service.

Chairman O'Neal of the Interstate Commerce Commission today testified that through a combination of the development of such facilities, subterminal facilities, and the use of contract rates, many subterminals will be able to achieve good service levels.

I am wondering if GTA has entered into any contracts with rail carriers to provide such subterminal service, and if so, what the results have been.

Mr. NELSON. No, sir, we have not. To my knowledge, there are only two such contracts now in existence.

But let me add, if our carriers are receptive, we are well prepared to transact with them right now.

Senator McGOVERN. To move in that direction?

Mr. NELSON. Yes, sir.

Senator McGOVERN. Thank you.

Mr. Feldmann, I just had one question I wanted to direct to you. As I have just said, the heart of S. 261 consists of its planning provisions, and nothing in the bill mandates that the subterminal plans be imposed on the States or regions from which they are drawn. This bill won't move anywhere, even if it's passed, except as local interests move it.

Nevertheless, these plans would serve as an extremely valuable guide in the development of efficient grain storage and shipping assistance.

I gather that your own experience in Iowa underscores the need for solid planning for the location of subterminals. I am wondering if you could just comment on that, and maybe even going so far as to tell us whether you agree with the fact of what I believe to be Mr. Fields' point of view, that you should not move ahead on one of these subterminals unless it follows the general recommendations of the planning group.

Mr. FELDMANN. Yes, Senator, I agree with that.

The point I made in there is that perhaps Iowa has overbuilt subterminals. I think we have had some subterminals built on rail lines that I think are questionable in the long run, where an overall long-range planning program could have probably prevented that, or perhaps could have had these terminals built on better and more long-term viable rail lines.

Our own experience has been that it has increased our ability to pay premium prices to our member producers, and it also has increased our ability to perform in the transportation area.

I don't mean to imply by that that we have all the transportation we need, or even would like. But I do believe that we do a better job of transporting grain than we would without the subterminal type concept and the unit train concept.

Senator McGOVERN. Well, gentlemen, thank you for your testimony.

I am just thinking, this is one of the few times I can recall sitting through a hearing for 3 hours, where every witness was in general support of the bill. We appreciate your testimony. I think it has been an excellent hearing this morning.

The subcommittee is adjourned.

[Whereupon, at 11:55 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

The purpose of today's hearing goes well beyond the provisions of the Agricultural Subterminal Facilities Act. Agriculture transportation in this nation has reached a crisis, and by all estimates it may well get worse before it gets better. No one can argue against the fact that bulk agricultural commodities should be moving by rail for the long haul. The railroads are potentially the most cost and energy efficient means of transport for such commodities.

And yet, the service we receive in the agricultural heartland of this country is for the most part, so poor, that it is not unusual today to see huge semi-truck operations hauling grain from our region out to the west coast. Observers of this deteriorating situation have cited endless reasons for the decline of agricultural rail service, from the overbuilding of rail plant at the turn of the century, poor rail management, antiquated labor work rules and excessive economic regulation to name a few. Congress, too, is at fault, as Members try to influence Interstate Commerce Commission action in ineffective car service orders which hamper rather than help service.

Some have called for nationalization of the rail industry or similar drastic measures in hopes that service will somehow improve through increased government participation. The Conrail experience, to my way of thinking, is strong testimony to the problems inherent in such government involvement.

On the other hand, the Administration has sent to the Congress legislation to deregulate the railroads on the assumption that the marketplace will be able to rationalize a modern and efficient rail system.

Regardless of actions that may be taken by Congress or the industry in the near future, it is now clear that the industry trend to consolidate plant especially in the Midwest, will continue. This is the primary thrust of the carriers' attempts to reduce unprofitable service and conserve declining reserves of cash.

The impact of these actions in rural America are devastating. The trend in rail service to agricultural shippers in particular is moving quickly away from light density branchlines and the small country elevator. Shippers say that their lines would be profitable if the railroad would only provide the service. Unfortunately, in most cases, if the railroad did provide unlimited service at present rates the lines in question would still be unprofitable. And the facts are that the carriers cannot even afford the necessary equipment to serve light density lines.

Therefore, absent any major changes in government or the rail industry, the agricultural producing states will experience further deterioration of branchline service and particularly service to small capacity elevators. Many of the large grain shipping and processing corporations have already perceived these trends and have begun to consolidate their operations on viable rail mainlines with subterminal elevator shipping and receiving facilities capable of loading unit trains and taking advantage of lower rates.

Under this scenario, the smaller country elevators that are the lifeblood of hundreds of communities throughout our region could be left stranded on a deserted track. Unlike the major corporate shippers, few elevators have the financial and planning wherewithal to enter into subterminal facility operations. Consequently, as this trend continues we could well face the elimination of such elevators, and more importantly local control of their operations, as the financially well-equipped organizations expand subterminal development into our region.

Although the Agricultural Subterminal Facilities Act of 1979 will not resolve all of the problems of agricultural transportation—and it cannot stop this trend—

it can provide for the preservation of local control over our shipping and storage facilities.

This Act is designed to allow our existing local elevator operators acting cooperatively, to take advantage of this trend and ultimately to improve the transportation service they receive. Specifically, the bill provides a planning mechanism through which the information necessary for the location and construction of subterminal elevators would be made available to area elevators. Based on such information elevators may collectively participate with government financing where necessary to construct subterminal facilities.

A few cases have already occurred in which facilities have been poorly located with inadequate capacity. The high cost of such facilities mandates that we minimize the potential for further mistakes of this kind.

I believe all of us here today agree with the thrust of the subterminal concept as a step toward better agricultural transportation. However, the movement toward subterminal facility development is not without problems. We cannot ask our local elevators to make additional heavy investments in shipping facilities without commitments from both rail and motor carriers to provide the necessary service. Given the railroads' track record for service, it is especially important that they provide the service and rates required for a successful subterminal facility operation. For service and rates are the key to efficient subterminals—which translate directly into better prices for the local producers, our ultimate goal.

Our first witness today will be Daniel O'Neal, Chairman of the Interstate Commerce Commission followed by Robert Smith, Assistant Secretary, Department of Agriculture.

We shall then hear from Professor Phil Baumel of Iowa State University and John Harling, President of the Omaha Bank for Cooperatives, to be followed by a number of representatives of farm and shipping associations as well as representatives of three of our most important midwestern carriers.

Due to the number of witnesses we must hear this morning I must ask you all to limit your oral comments to a maximum of ten minutes. Any additional testimony you may wish to present can be submitted to the Committee for inclusion in the hearing record.

STATEMENT OF A. DANIEL O'NEAL, CHAIRMAN, INTERSTATE COMMERCE COMMISSION

Good morning. I want to thank the Chairman and members of the Subcommittee for giving the Commission this opportunity to present its views on S. 261, the "Agricultural Subterminal Storage Facilities Act of 1979." The bill seeks to alleviate the problems associated with the transportation of bulk agricultural commodities by encouraging the construction of transient storage and multi-modal shipping facilities. The legislation has the potential to benefit both the rail industry and agricultural producers.

The Commission believes S. 261 to be a potentially useful tool in alleviating the problems of rural branch line service faced by agricultural shippers. The bill provides a mechanism for improving the car supply situation by improving car utilization through increased unit train movements, and by an increased supply of cars. In addition, the bill appears to promise to increase both intra and inter-modal competition by the railroads and may encourage greater use of contract rates.

BACKGROUND

In assessing the possible effects of this bill on the transportation system, it may be useful to mention some of the general problems facing the railroad industry. Those problems are well documented, and there is no real doubt that the railroads as a whole are a troubled industry. While the total tonnage hauled by railroads continues to increase, its market share has dropped steadily. Despite the success of some roads, notably in the West and South, the industry's profitability has also declined sharply.

Some railroads are overbuilt, unable to maintain their track and equipment, and are unable to secure credit to make needed improvements. The effects of those problems are often severe. As the Subcommittee is aware, during the past year the Nation faced one of the worst car shortages in two decades. Shortages of jumbo covered hopper cars and box cars numbered in the tens of thousands. The car shortage problem has increased over the years as railroad ownership of

freight cars has decreased. In 1967, there were well over 1.8 million freight cars in service. In 1977, there were about 1.65 million freight cars in service, a drop of nearly 10 percent.

That situation has been aggravated by poor car utilization. In 1967, freight cars, on average, made slightly over 19 trips per year, with an average turn-around time of approximately 19 days per trip. Ten years later, in 1977, the average car was making less than 16.5 trips per year, with an average turn-around time of over 22 days per trip. Other figures indicate that freight cars are spending a meager 12 percent of their time in road train, with the rest of their time spent loading or unloading, standing idle, or being handled in terminals. So beyond numbers of cars, car shortages are a result of poor utilization. Indeed, equipment utilization goes to the very heart of railroad performance today, and seriously affects the future of the industry. Better utilization results in a need for less equipment, in better service, and in more business per unit with less unit costs.

The direct regulatory role in car utilization is limited. The Commission has taken action such as the recent increase in demurrage rates, imposition of hourly as opposed to daily car hire charges and adjustments to per diem rates in order to encourage better car utilization and to promote private car acquisition. And during car shortages the Commission may issue car service orders, which, for example, might force carriers to send cars to a country grain elevator far removed from a rail main line. Car service orders often may run counter to rail management decisions and may in fact affect the overall efficiency of the rail system. Rather than Commission intervention through car service orders, it would be more constructive to improve car service by making certain traffic more attractive to the railroads. Consolidation of shipping terminals and the use of unit trains, should make previously marginal agricultural traffic more desirable and profitable, thus improving service.

The railroad problems of inadequate revenues, car utilization, reliability, and the inability to maintain their system properly in turn create problems for agricultural shippers. Those shippers in many instances have no alternative to poor service, if they have service at all. They often face serious car shortages during peak periods, and may not have storage capacity adequate to hold large amounts of their products for a long period of time.

The railroads' problems and resulting shipper problems will not go away, even if there are significant changes in the regulatory system. The bill being considered today holds promise of being quite beneficial in addressing the rail transport difficulties just outlined. Some rationalization of the existing system seems inevitable. That means line abandonments will continue to be sought. At present rail revenue levels, and without operating subsidies, there are limits to the number of marginal services which can be cross-subsidized from other revenues. The bill, we believe, should help avoid serious disruptions of service while rationalization occurs. It should help those affected help themselves.

Among other things, construction of centralized storage facilities should lead to improved transportation service at a lower cost. Carriers would have fewer routes to serve with greater traffic density. Railroads could concentrate on improving service to central storage locations. Also, railroads would be able to direct their resources toward maintaining and improving their more important lines rather than little used lines.

Although all of this should result in better service, we cannot be certain that it will result in lower rates. The financial condition of many railroads is such that they simply must increase their revenues. Hopefully, greater revenues will eventually translate into improved service as deferred maintenance is attended to and more cars are purchased.

We would also caution that we do not believe this bill will totally solve car shortage and utilization problems. There will still be certain high demand periods when market conditions dictate that large amounts of stored commodities be shipped immediately. In those periods, it seems likely that shortages will continue to occur. However, we feel the bill will help alleviate car shortages, even if it does not eliminate them.

IMPROVED CAR UTILIZATION

The bill is intended to aid in the improvement or construction of subterminal facilities designed to accommodate "unit railroad trains or multiple car trains of twenty cars or more". That provision recognizes the efficiency of unit train movements of bulk commodities. Such large movements of single commodities

realize savings through improved turn-around times, fewer terminal and switching operations and lower labor costs. Further, the reduced unit costs and potential rail profits would hopefully result in improved line maintenance. We believe it likely that enactment of the legislation will help to improve care utilization.

INCREASED SUPPLY OF ROLLING STOCK

The bill requires each state rail plan to evaluate the potential benefits of subterminal ownership or lease of rail "rolling stock (including locomotives)" and provides that loans made or insured by the Secretary of Agriculture under the Act may be used to purchase such equipment. We believe that these provisions should be useful in promoting better car supply and utilization.

EFFECTS ON EXISTING COUNTRY ELEVATORS AND ABANDONMENTS

The bill, in addition to encouraging the physical consolidation of country elevators, would also permit those country elevators remaining in operation after subterminal development to participate in the subterminal's bulk shipments. In this situation, for example, a small elevator would be permitted to ship grain to the subterminal by truck for loading into unit trains, thereby sharing in the unit train rate. That participation should alleviate some of the problems associated with rural branch line abandonments. The bill could ease the burden on elevator operators of moving facilities off lines likely to be abandoned. Further, it could permit more expeditious abandonments by the railroads by decreasing the number of protested abandonment applications. Used in conjunction with existing law, such as the Local Rail Service Assistance Act, it is possible that many of the problems of dislocation of agricultural shippers associated with rural abandonments could be avoided.

COMPETITION

The Commission, in recent decisions, has been particularly sensitive to the effects of its actions on competition. In line with this, we note that one of the effects of S. 261 may be to increase competition between railroads as well as competition between railroads and other modes.

The effects of intra-modal rail competition would likely become apparent during the planning stage envisioned in the bill when sites are being selected for placement of subterminal facilities. It will be to the advantage of the terminal planners to coordinate site selection with their negotiations for service commitments from alternate rail lines. Those negotiations might even embrace establishing contract or capital incentive rates. In many cases it would be likely that facility planners could "shop around" for the most advantageous agreement from the railroads serving a region. It is possible that railroads may compete with each other for such agreements and the resultant advantages of guaranteed minimum amounts of traffic. Also it is conceivable that in some areas a country elevator would have the option of trucking its grain to two different subterminals located on different rail lines. That would allow the elevator operator to shop for the better rail rate, thus enhancing competition.

Competition between railroads and trucks or barges would also likely be enhanced. This is due to the nature of present grain shipments. During non-peak demand periods, barge and short-distance truck rates per mile tend to be lower than comparable rail rates. During peak-periods rail rates often remain constant or go up relatively slowly, while unregulated trucks and barges raise their rates more drastically. The effect of the bill should be to encourage railroads to use contract rates or unit train rates which in some cases could be competitive with truck and barge rates year round. Equally important to intermodal competition could be the improved rail service reliability and speed resulting from the greater efficiency and improved car utilization associated with contract rate and unit train arrangements. An additional potential benefit of the increased use of contract rates would be the tendency to level out the peaks and valleys of shipments which contribute to car shortages. That could occur to the extent that contract rate agreements contain provisions intended to distribute shipments regularly over a set period of time.

At the same time that competition would be enhanced, cooperation between modes would also likely be encouraged. That is due to the concept of the bill which suggests an intermodal approach to the structure and placement of the

subterminal facilities. Under such an approach we might find trucks hauling in grain from the subterminal area to be loaded on a train or barge for a six hundred or thousand mile movement to a domestic purchaser or to a port. Thus, an intermodal shipment would occur using each modes own distinctive advantages.

CONTRACT RATES

In November of last year, the Commission (with Commissioner Stafford concurring) released a policy statement concerning contract rates. The Commission recognized the important savings and benefits to rail transportation which can result from the use of contract rates and rejected the thesis that contract rates are per se unlawful. It is hoped that this action by the Commission will lead to increased use of contract rates which can be of great value to shipper and carrier alike.

Contract rates are a key element in the type of heavy capital investment contemplated by this bill. We can only voice our strong encouragement for the use of such rates and indicate our support of legislative efforts such as this which would provide further incentives for their use.

Furthermore, we should note that the majority of subterminal projects would likely qualify for treatment under the existing capital incentive rates provision of Title 49. While this provision has not seen much use to date, we would also encourage its use as an alternative to contract rates treatment under our contract rates policy guidelines just discussed.

CONCLUSION

In conclusion, let us repeat that change is in store for the railroad industry. There will be changes in the way they operate, changes in the way they are regulated and changes in the way they are used. This means, of course, that there will also be changes in store for rail users. What is needed to deal with these changes is open and frank discussion about the complex issues, imagination, and foresight in crafting appropriate solutions, and accommodation between carrier and shipper interests in order to make solutions viable.

As a part of this process, the Commission is examining a wide variety of measures to improve the performance of our Nation's transportation system. We feel that the objectives of this bill are compatible with our efforts and could be beneficial to shipper and carrier alike.

Thank you for this opportunity to present the Commission's views on the "Agricultural Subterminal Storage Facilities Act of 1979". I will be glad to respond to any questions you may have.

STATEMENT OF RONALD F. SCHRADER, DIRECTOR, OFFICE OF TRANSPORTATION, U.S.
DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the committee, we appreciate this opportunity to appear today to give the Department's views on S. 261, the proposed "Agricultural Subterminal Storage Facilities Act of 1979." S. 261 provides for amendment to the Consolidated Farm and Rural Development Act to authorize loans for the construction and improvement of subterminal storage and transportation facilities for certain types of agricultural commodities, and provides for the development of State plans to improve such facilities within the States or within a group of States acting together on a regional basis.

The Department does not support enactment of S. 261 at this time. We believe such action would be premature in view of other ongoing activities outlined herein.

The subterminal approach certainly has merit and is being followed very successfully in some geographic areas. Where density of crop production and other relevant variables indicate that a subterminal can operate profitably and return net benefits to agricultural producers, it is a viable option.

S. 1835, which was passed late in the 95th Congress and signed into law November 2, 1978, as Public Law 95-580, authorized the establishment of a Rural Transportation Advisory Task Force. This task force, which is jointly chaired by the Secretary of Agriculture and the Secretary of Transportation and whose 14 members represent carriers, Congress, governmental agencies, and the agricultural and academic communities, has been mandated by the Congress to

study and report on methods for moving agricultural commodities more economically and efficiently. The specific charge of the Rural Transportation Advisory Task Force is threefold: (1) to make recommendations for determining the essential transportation needs of agriculture; (2) for establishing a national agricultural transportation policy; and (3) for identifying impediments to a railroad transportation system adequate to meet the essential needs of the agriculture industry of the United States.

The task force became operational on March 14, 1979. A study and report by the task force is due to Congress by January 1, 1980, on how to improve the movement of farm products and supplies in this country.

While it is clearly recognized that there is a need for improvement of subterminal storage and transportation facilities in many parts of this country, the Department strongly believes that this is a problem which should be considered within the whole context of addressing problems and solution relating to agricultural transportation needs.

Authority presently exists, both within the Farmers Home Administration (FmHA) of the Department of Agriculture and the Federal Railroad Administration (FRA) of the Department of Transportation, for the availability of funds, either on a loan (FmHA) or grant basis (FRA) for subterminal facilities. To this extent, Mr. Chairman, it is the Department's view S. 261 would provide some duplication of authority which presently exists in both the FmHA and the FRA. Additionally, it would require two separate federal planning processes for the same purpose.

FRA also has authority for grants to States for rail planning, including projects such as subterminal facilities. Adequate funds are available for these purposes in fiscal year 1979.

Several projects have been funded by FmHA for branch lines. Farmers Home Administration at USDA and Federal Railroad Administration at DOT have recently signed a memorandum of cooperation outlining program objectives and procedural matters. Farmers Home expects to provide an increased level of loan activity for railroad rehabilitation and rail shipper facility projects during Fiscal Year 1979 and subsequent years. We have also funded two demonstration projects to enable the State transportation planning process to create and test a methodology and other analytical tools to address the concerns of agricultural and rural development.

Further, I might point out that we are presently working with the State of South Dakota on a test of the feasibility of using a transportation cooperative to own and even operate that part of the Milwaukee line facing abandonment.

Mr. Chairman, this concludes my statement. I and my colleagues shall be glad to respond to any questions the Committee may have.

STATEMENT OF JOHN W. INGRAM, PRESIDENT, CHICAGO, ROCK ISLAND & PACIFIC RAILROAD

Mr. Chairman and members of the Committee, thank you for inviting me to testify on S. 261, the "Agricultural Subterminal and Storage Facilities Act of 1979." As the Committee is well aware, the Chicago, Rock Island and Pacific—known colloquially (and on the sides of our freight cars) as "The Rock"—is predominantly an agribusiness-oriented railroad. Our 13-state territory embraces that area between the Mississippi Valley and the foothills of the Rockies. Our northern reaches are in Minnesota and our southern terminals are at the Texas Gulf coast. Forty-four percent of all agricultural employment and 50 percent of all farm income in the United States is derived from this territory.

We are deeply involved in the movement of export grain; we are similarly relied upon for the movement of substantial amounts of fertilizer and other agricultural chemicals and fuels into farm country from the Gulf coast. I mention these points because The ROCK is acutely aware of the difficulties inherent in providing transportation—at a profit—for commodities that are produced ubiquitously and which, at the outset of their trips to market, are marshalled over a network of branch lines that (one) involve relatively light densities of traffic, and (two) are almost exclusively agricultural lines. This is an important distinction that must be realized in Washington. The federal establishment learned a great deal about railroad problems, potentials, and strategies in the industrial Northeast in recent years during the collapse of the Penn Central and

the birth of ConRail. There are now a number of rail analysts who are quite expert at nodal analysis (as opposed to the ubiquitous disciplines that must be utilized in farm territory). Consequently there is a healthy measure of expertise here regarding the movement of, say, steel from Pittsburgh to Detroit; or people from Boston to Washington. I regret to say that the rail problems in the Midwest have not yet received the intense scrutiny given to the Northeast situation a few years ago. While tentative starts are being made, there is no concerted effort to find out how to serve relatively light-density farm territory; rather, the bulk of the analysis done so far seems to rely on the precept that rail service simply cannot be expected to earn its way gathering freight at the extremities of its tracks and that someone else (specifically, trucks) will have to bring agricultural commodities to central collection points where rail can then be used only for heavy-density, unit train-type operations.

This is not an entirely fallacious precept. If nothing else changes, that is probably what we will come to. And there will be an added cost to farmers. Our shippers estimate that they incur additional costs of about 5 cents per bushel for every 10 miles of truck transport they are required to use to get an adequate railhead.

S. 261, however, can take us in the direction of altering this less-than-happy prospect. I would be less than honest if I testified that this bill, by itself, will meet the needs of mid-America's agribusiness. It can; but probably only if a number of changes that cannot be legislated are brought about by the railroads themselves.

S. 261 calls for access to financing for the construction of transient storage facilities and multimodal terminal facilities that would enhance the efficient receipt and shipment of agricultural commodities. Such "enhancement" calls for the ability to handle and load at least 20 cars. The legislation would further provide for loans that would cover the long-term lease or purchase of rail rolling stock (including locomotives), motor trucks, barges, and other bulk agricultural commodity transport equipment that would be used in conjunction with the operation of subterminal facilities. Most importantly, the legislation very properly mandates a full measure of local and regional planning. Frankly, mid-America doesn't need Washington telling it precisely where transient storage and multimodal terminal facilities shall be located. Similarly, the bill requires the loan assistance preference will be given to existing elevator operators and local producers in order to preserve local ownership and control.

The bill should not—and does not—create intraregional competition for long-established local businesses. Indeed, it encourages them to upgrade and improve with the ultimate result of increased annual throughput and the economies of unit train rates. (As an extra attraction, such operators would then be in a much better position to establish and enjoy contract rates with carriers for further assurance of equitable costs and adequate car supply. But that's the subject of other legislation.

It is vital that all interests be involved in planning. I am especially pleased with the concept of the Plan Review Commission as described in Section 4(b). If I could make one suggestion regarding the review commission, it might be helpful to require in their membership the carrier or carriers that will serve the new subterminal. While the phrase "and other interested individuals" would conceivably cover this, it gives no assurance of carrier participation. Involvement of the carrier or carriers would be essential. As railroads devise better methods of providing reliable service on lighter-density and medium-density branch lines, logistical and institutional breakthroughs will follow. I think that officially mandated involvement by carriers would be a great help. I have one other minor point regarding Section 4(b). I bring it up because the matter of local planning is paramount. Would there be a Plan Review Commission for each state and/or region, or would there be separate commissions for each project I bring that up only because of our experience with the State of Iowa Branchline Rehabilitation Program. In that case, there is a separate analytical effort made for each specific project; in Iowa's case, each proposed upgrading must be agreed to by the state, the railroad, and the shippers involved. It has worked out well. It has resulted in improvements that are used, not simply admired.

Mr. Chairman, I have been made aware of some of the reservations expressed recently concerning S. 261. It has been suggested that even with subterminal elevators capable of loading unit trains, rail service will still be less than satisfactory; that railroads are inherently incapable of moving agricultural commodities effectively, even when it's handed to us on a silver platter.

I respectively beg to differ.

I mentioned earlier that there are a number of institutional and traditional aspects to railroading that should change if the gathering of grains and other crops is to be done effectively in lighter-density territory. On The ROCK, we conducted a number of experiments last summer with so-called "minitrains"; operations that utilized dedicated small fleets of hopper cars and low-horsepower engines to go out into production territory the way trucks do. Train crews went out with empties and came back with loads. They waited at elevators while cars were loaded, just like truck drivers do. They were exempted from traditional divisions between "road crew work" and "yard crew work." More often than not, they operated without cabooses. The usual crew size was three people, not the customary four. This was done with the full cooperation of our unions. They, too, are interested in getting railroading into new markets. I have with me a small brochure describing these gathering train activities. I will be glad to leave copies for the Committee, and you can make it a part of the record if you so desire. We are still working with our unions under the collective bargaining system to institute such operations on a permanent, nonexperimental basis. I think good ideas ultimately win out over bad habits, and I would venture that should S. 261 become law, should states and regions do appropriate planning, should carriers be involved in that planning, and should such subterminals be built, agricultural railroads will have cleaned up our act sufficiently to make the system work.

Let me be quick to point out that I do not envision the use of small gathering trains as being an adequate alternative to unit train facilities at subterminal elevators. We are hoping to utilize them to cope with the situation as it exists today. Frequently, small country elevators are located at the end of badly deteriorated branch lines. Such lines will soon need massive rehabilitation if they are to continue carrying 100-ton jumbo covered hoppers. In such instances, the development of subterminal elevators, sited after thorough planning is complete, might be a much more economically appropriate solution than massive track rehabilitation. This is something that the planning aspect of the legislation would certainly address.

In summary, Mr. Chairman, I would like to applaud both the intent and the content of this bill. For the agricultural community to have cost-effective transportation and for the railroads to be able to do that which we do best (move more than one car at a time), we must all accept the necessity of certain change in the way commodities first enter the transportation matrix. S. 261 is a positive step in the right direction. Given the safeguards that have been built into the bill, we see no danger of unfair competition to present elevator operators, no coercion of railroads to perpetuate chronic money losers, and a positive step forward in negotiating that long, and sometimes bumpy, road from farm to market.

Thank you for the opportunity to be here. I will be glad to respond to any questions.

STATEMENT OF PROF. C. PHILLIP BAUMEL, DEPARTMENT OF ECONOMICS, IOWA STATE UNIVERSITY, AMES, IOWA

For the past decade or more, grain shippers and receivers have complained about rail car shortages, locomotive shortages, poor condition of branch lines, branch line abandonment and slow rail car turnaround times. These problems have occurred simultaneously with continued deterioration of the earnings of many railroad companies and bankruptcy of the Penn Central, Rock Island and Milwaukee railroad companies. During the same time, the amount of grain moved off farms to markets has increased dramatically. The major increases have been to export ports. Most projections forecast continued increases in grain exports. While a significant amount of the increase in export grain has been shipped by barge, the amount of grain shipped by rail has also increased to both domestic and export markets. This increase in rail shipments of grain has occurred during a period of declining grain car numbers and a shift from the small 40-foot box car to the 100-ton jumbo covered hopper car. Most observers credit the efficiencies of multiple-car and unit-grain train shipments for the growth in rail grain traffic. The major reason for the increased carrying capacity of the multiple-car and unit-grain trains is the reduced turnaround times of these shipments. Records from approximately 2,000 cars leased by cooperatives in Iowa in 1977 and 1978 indicated the following average turnaround times from Central Iowa origins to Gulf export ports and to Chicago destinations for various sizes of shipments:

TABLE 1.—TURNAROUND TIMES FROM CENTRAL IOWA TO GULF EXPORT PORTS AND TO CHICAGO MARKETS IN DAYS

| Destination and size of shipment | Turnaround time in days | |
|----------------------------------|-------------------------|-----------------------|
| | 1977 | January to April 1978 |
| Gulf export ports: | | |
| Single car..... | 34.4 | 38.5 |
| 3 to 10 cars..... | 26.5 | 27.4 |
| 25 cars..... | 19.8 | 26.0 |
| 50 cars..... | 17.9 | 25.6 |
| 75 cars..... | 16.9 | 20.7 |
| Chicago: | | |
| Single car..... | 22.7 | 20.1 |
| 25 cars..... | 12.5 | 15.0 |

Turnaround times declined as the size of the shipment increased. Single-car shipments took almost twice as many car days as 75-car shipments.

In addition to the increased carrying capacity, the multiple-car and unit-train grain tariffs provide for reduced rates for shipping the larger volumes. The current Ex Parte 357—A rail rates for single-car, multiple-car and unit grain train shipments from Nevada, Iowa to Gulf and Chicago export ports are presented in Table 2.

TABLE 2.—EX PARTE 357—A RAIL RATES FOR SHIPPING CORN FROM NEVADA, IOWA, TO GULF AND CHICAGO EXPORT PORTS

[In cents per bushel]

| Size of shipment | Rail rate | |
|------------------|-------------------|----------------------|
| | Gulf export ports | Chicago export ports |
| Single..... | 54.3 | 29.4 |
| 25..... | 47.9 | 26.6 |
| 50..... | 45.4 | 24.4 |
| 75..... | 42.6 | 21.6 |

The rate reductions from the single car rate to 25-car and 75-car rates to Gulf export ports are 6.4¢ and 11.7¢ per bushel, respectively. The rate reductions from the single-car rate to 25-car and 75-car rates to Chicago export ports are 2.8¢ and 7.8¢ per bushel, respectively. Rate reductions of this magnitude enable the elevator to invest in additional siding and load-out capacities to load the larger size shipments and to be able to pay higher prices to farmers. More importantly, the larger sizes of shipments have enabled the approximately 120 multiple-car grain shippers in Iowa to transport more grain out of Iowa, with the existing number of rail cars, than would have been possible before the development of the subterminal system. Moreover, these rates have enabled Iowa farmers to sell grain regularly in world markets. At the same time, railroad companies report higher earnings from these types of shipments.

Another major benefit of these rates has been to provide a viable alternative to Iowa elevator operators located on branch lines that can not be economically upgraded to handle the 100-ton jumbo hopper cars. The Farmers Cooperative Elevator Association at Roland, Iowa is an example of a shipper located on a branch line that has used the multiple car system to successfully adjust to rail abandonment. In 1971, the Chicago and Northwestern Transportation Company informed Mr. Vale Peter, manager of the Roland Cooperative, that the railroad intended to abandon the Roland branch line. After fighting the abandonment in court, Mr. Peter came to the realization that even if the line were preserved, the rapid reduction in the number of 40-foot box cars would mean that the cooperative would have extreme difficulty obtaining any cars. After a series of information meetings with the membership, the board of directors of the Roland Cooperative voted to build a new elevator on the main line 10 miles south of Roland. The new facility, costing \$1,250,000 with 400,000 bushels of storage capacity and rail siding for 50 cars, was completed in time for the harvest in 1974. In addition, a 380,000 bushel storage annex and siding for an additional 25 cars was completed in 1976. Despite a severe drought in 1977 and 1978, and the abandon-

ment of the branch line serving the original Roland elevator, the subterminal has enabled the cooperative to increase grain volume 75 percent over 1974 levels, and more importantly, to pay from 3 to 5¢ per bushel more to farmers than nearby elevators. The severe drought, combined with higher interest and depreciation costs, has held earnings to about the 1974 levels.

Mr. Peter indicated that both the Roland elevator and the subterminal have been filled during the harvests. After harvest, most of the grain is hauled directly from the farm to the subterminal. Figure 1 illustrates why the costs of the additional distance the grain is hauled by the farmer is relatively small. If the branch line is maintained, a farmer located 4 miles south of Roland must travel 4 miles to deliver his grain to the Roland cooperative. If the rail line is abandoned or if the farmer simply wishes to haul to the new subterminal, the farmer would need to haul his grain 6 miles to the subterminal located on the mainline. Thus, the farmer would need to travel only 2 additional miles to deliver his grain to the new subterminal. And since the farmer has already incurred the truck ownership costs to haul to Roland as well as the time required to load and unload the grain, the additional cost of traveling the additional 2 miles is small. Table 3 shows the estimated variable cost of trucking grain an extra 10 miles with gasoline prices at 75¢ and \$1.00 per gallon, respectively, and with tire prices at March 1979 price levels.

TABLE 3.—ESTIMATED VARIABLE COST PER LOADED MILE OF HAULING GRAIN AN ADDITIONAL 10 MILES IN SINGLE-AXLE AND TAG-AXLE TRUCKS

| Cost item | Type of truck | | | |
|---|------------------------------------|----------------------------|------------------------------------|----------------------------|
| | 300 bushel, single axle | | 450 bushel, tag axle | |
| | 75 cents per gallon gasoline | \$1 per gallon gasoline | 75 cents per gallon gasoline | \$1 per gallon gasoline |
| Fuel, oil, and tires..... | 29.8 | 37.0 | 38.4 | 40.8 |
| Wages..... | 22.5 | 22.5 | 22.5 | 22.5 |
| Total variable cost..... | 52.3 | 59.5 | 60.9 | 63.3 |
| Variable cost per bushel mile..... | .17 | .2 | .135 | .14 |
| Variable cost per bushel-mile times 10 miles..... | 1.7 | 2.0 | 1.35 | 1.4 |

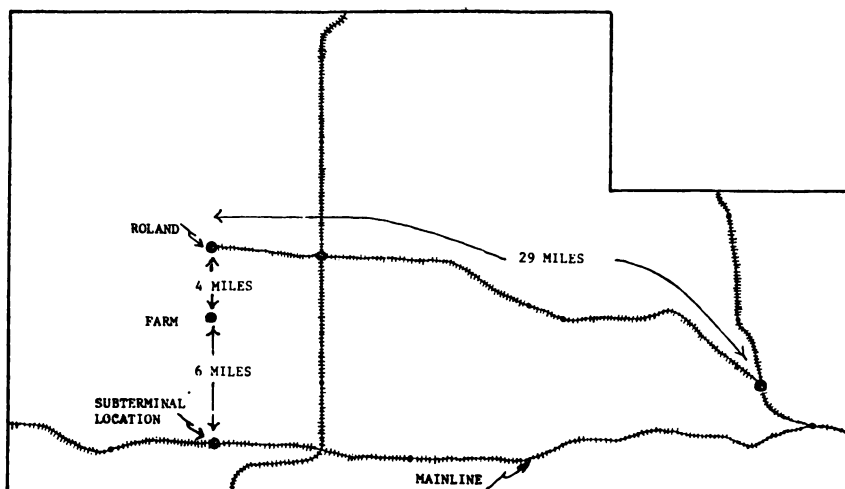


FIGURE 1.—Illustration of grain flows with the Roland branch line preserved and alternatively abandoned.

Under the assumption that the farmer must incur the cost of the vehicle and the time to load and unload the grain regardless how far he hauls the grain, the additional cost of hauling the grain an extra 10 miles varies from 1.35¢ per bushel to 2.0¢ per bushel depending on the price of gasoline and the type of truck. Mr. Peter indicated that increasing amounts of grain are being hauled from the farm directly to the subterminal. He further indicated that the cost of hauling grain from the original elevator to the subterminal is about 3.5¢ per bushel and the cost of the extra handling is about 3.0¢ per bushel. Grain hauled directly from the farm to the subterminal would incur no additional handling costs.

The Roland Cooperative has leased 50 jumbo covered hopper cars. These cars are matched with 25 railroad owned cars to make up the 75-car train. While there have been some weather related problems during the winter of 1978 and 1979 resulting in slower turnaround times, Mr. Peter indicated that his cooperative has experienced fewer problems and the cooperative has been able to transport significantly larger amounts of grain than nearby elevators that are not using the subterminal system.

Mr. Peter indicated that originally there was some resistance by cooperative members to the idea of discontinuing the fight to preserve the branch rail line and to build the subterminal on the mainline. Now, however, almost all the cooperative members agree that it was a good move to build the subterminal. They feel that cooperative has a good future ahead of them and they see the potential of increasing their grain volume from about 1,900,000 bushels in 1974 to around 5,000,000 bushels by the early 1980's. The members agree that they must accept change in the way grain is transported just as they have accepted change in the way they grow their grain.

Managers of grain elevators in other areas of Iowa report as much or even more success with the subterminal concept than the Roland Cooperative. While it has not solved all their car shortage and turnaround problems, it has enabled them to transport more grain with fewer problems at a higher price to farmers than those elevators not utilizing the system. Moreover, the railroad companies report higher earnings on these shipments than in single car shipments. So the concept is useful to farmers, elevators and railroad companies.

The subterminal concept is not unique to Iowa. A large number of subterminals have been constructed in Illinois, Indiana, Ohio and Minnesota. The concept is just beginning to be utilized in Nebraska. It seems that there is great potential for this concept in Nebraska.

Some members of the grain trade have expressed uncertainty about the value of this concept in wheat producing areas where the density of grain production is less than in the corn-soybean producing areas. A few multiple car rates have been published for wheat shipments and a few elevators that handle wheat are loading multiple-car rail shipments of wheat. One of these elevators is the Pierre Farmers Elevator Association at Pierre, South Dakota. This cooperative spent \$150,000 to provide additional siding for 25-car grain shipments for a new elevator located on a main rail line. Mr. Herb Sibson, manager of the Pierre Cooperative reported that his cooperative shipped several 25-car units of grain in 1978 from the Pierre elevator. Most of the 25-car shipments were wheat shipped to Duluth and Minneapolis. The 25-car unit consisted of both railroad-owned cars and cars leased by the Grain Terminal Association.

The current Ex Parte 357-A single and multiple-car rail rates from Pierre, South Dakota to Duluth, Minneapolis and Winona, Minnesota are presented in Table 4. The rate reduction from the single-car to the 25-car shipment is about 6¢ per bushel during the harvest season to Minneapolis and Winona. During the balance of the year, the rate reduction is about 9¢ per bushel. The rate reductions to Duluth are about 16¢ to 20¢ per bushel, respectively. These reductions are sufficiently large to provide for loading facilities on a main line and for additional trucking by farmers to the subterminal. More importantly, the multiple-car shipments increase the capability of both elevators and railroad companies to transport grain. The Chicago and Northwestern Transportation Company reported average turnaround times of 13.8 days on nine 25-car shipments from Pierre to Duluth, Minneapolis and Sioux City. Turnaround times for eight single-car shipments from Pierre to Minneapolis was reported to be 24.75 days. Based on these numbers, almost twice as much grain could be transported out of South Dakota with a fixed number of cars under the subterminal system than under the existing single-car system. At the present time, few country elevators in wheat areas or wheat milling or exporting facilities are equipped to handle

multiple-car shipments. If more country elevators, wheat milling and exporting facilities were equipped to handle multiple-car wheat shipments, railroad companies could combine 2 or more 25-car wheat shipments into unit trains and reduce turnaround times even further. The originating railroads would, however, need to negotiate with terminal switching companies to keep the units together to achieve the maximum benefits of the multiple-car units.

TABLE 4.—EX PARTE 357-A RAIL RATES FOR SHIPPING WHEAT FROM PIERRE, S. DAK., TO DULUTH, MINNEAPOLIS, AND WINONA, MINN.

[In cents per bushel]

| Size of shipment | Rail rates | | | | | |
|------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| | Minneapolis | | Duluth | | Winona | |
| | July 1 to August 15 | August 16 to June 30 | July 1 to August 15 | August 16 to June 30 | July 1 to August 15 | August 16 to June 30 |
| Single car..... | 42.6 | 42.6 | 57.9 | 57.9 | 45.6 | 45.6 |
| 25 cars..... | 36.6 | 33.6 | 41.4 | 37.8 | 39.9 | 36.3 |
| 50 cars..... | 35.4 | 32.4 | 40.2 | 36.3 | 38.1 | 35.1 |

Source: Chicago & Northwestern Transportation Co.

Mr. Sibson indicated that, although there are many problems with multiple-car shipments, he believes that it is the way for the wheat industry to go. He said that you can't stop progress and that the subterminal system will also help to save the railroads.

It is fairly clear that the low density of wheat production will not support 75-, 100- or 125-car unit trains from country elevators. The Pierre elevator example clearly indicates that 25-car units are feasible. In some areas, where wheat yields are relatively high, 50-car units might be feasible.

While the low density of wheat production will not support large unit-train operations out of country elevators, the same lack of density production and therefore low freight volume prevents many branch rail lines from being economically viable. Thus, the subterminal system provides an alternative for elevators located on low density branch lines that may be abandoned to ship grain to market by rail efficiently and economically.

Most of the discussion of the subterminal system focuses on the problems of shipping grain out of grain producing areas. The same concept can be used in areas that receive grain to be fed to livestock and poultry. These areas include the states in dairy areas like New York as well as poultry producing states like Delaware, Maryland, Georgia, Alabama, Mississippi and Arkansas. At the present time, grain is shipped to these areas in single or 3-car shipments at relatively high rates. If subterminal receiving facilities were built in these states to receive grain in low cost multiple-car or unit trains and the grain was distributed by truck to small users, these areas would benefit from lower transport costs and at the same time be assured of a supply of grain stored in the receiving subterminal. Both, the grain and railroad industries would benefit from the more efficient utilization of the railroad equipment.

The proposed bill S. 261 proposes low cost loans or loan guarantees to build subterminals and to purchase or lease transportation equipment. It can be argued that cooperatives do not need this type of federal loan or loan guarantees because the Banks for Cooperatives adequately provide loans for these types of investments. The Banks for Cooperatives have done an outstanding job of providing financing for farmer cooperatives. However, small independent elevator owners do not have access to the types of financing provided by the Banks for Cooperatives. If we wish to have small independent elevators remain as a viable, growing part of the grain industry, it is important that this type of financing be made available to these firms to adjust to railroad abandonment and to be able to utilize the efficiencies of the subterminal system.

Under the subterminal system, trucks consume more fuel than under the single-car system. However, two studies in Wisconsin and one in Iowa indicate that branch line rail movements are relatively fuel inefficient. The fuel efficiencies of multiple-car shipments combined with elimination of branch line circuitry would more than offset the higher fuel consumption of trucks and therefore reduce total fuel consumption.

The economics of the subterminal system have been documented for the corn and soybean producing areas by published studies. These studies have provided guidelines for investment decisions by individual and groups of firms. Similar types of analyses are needed in other grain producing and consuming areas to determine the precise nature of the subterminal system needed in each area. The planning activity provided for by S. 261 would provide the guidelines to improve the decision making of individual firms.

STATEMENT OF JOHN A. HARLING, PRESIDENT, OMAHA BANK FOR COOPERATIVES,
OMAHA, NEBR.

Mr. Chairman, my name is John A. Harling. I am president of the Omaha Bank for Cooperatives, a lending institution that is part of the farmer owned cooperative Farm Credit System. The Bank is headquartered in Omaha, Nebraska, and serves farmer cooperatives in South Dakota, Nebraska, Wyoming and Iowa.

I appreciate the opportunity to appear before your subcommittee to testify in regard to S. 261 introduced by Senator McGovern of South Dakota. I will be testifying on behalf of the Omaha Bank for Cooperatives relating the situation concerning grain storage and transportation problems confronting both producers and shippers. I will make some observations concerning the overall situation which will hopefully provide additional insight from our experiences and help mold your legislation specifically to the problem. As we share our views on the problems that exist, I assure you we have similar concerns.

The Bank is owned by farmers and ranchers. We came into being in 1933 to provide a source of credit to farmer-owned businesses which carry on marketing and purchasing functions for individual farmer owners. Farmers create the system to provide credit for agriculture not available from other sources. We feel very strongly that a system of farmer-owned businesses is the foundation for building an environment that will enable us to preserve the family farm as a mode of life and enable it to remain a viable institution in rural America. In this regard we strongly support your efforts to provide relief from the perennial grain marketing and transportation problems.

I will give you a brief outline of the conditions as they exist in our district. Each of the states that we serve has unique characteristics.

Iowa has a very highly concentrated production of corn and soybeans, and exports a large portion of their production. The state is well situated as far as transportation opportunities are concerned. Barge facilities are located on both the Missouri and Mississippi Rivers.

There are several major railroads in Iowa providing indirect access for domestic consumption and for export purposes. The subterminal concept is in operation in the state. If anything, the state may now have more subterminals than necessary.

In Nebraska, on the other hand, the situation is quite different. There are two good railroads which cross the state through the highly productive Platte Valley. Irrigated crop production is steady and there are a fairly limited number of commodities. As export opportunities expand and west coast markets develop, the subterminal concept that exists in Iowa is moving rapidly into Nebraska. Currently there are at least two groups of shippers who are exploring ways to coordinate their marketing and transportation activities. One group is located off the main rail line and will need to build a facility. The other group has adequate facilities located along the main line, but is seeking to coordinate their marketing and transportation activities. They are going through the planning process now. Financing arrangements will depend on the outcome of their economic feasibility studies.

The situation in South Dakota is substantially different than the other two states. They have a greater variety of crops, and production levels frequently vary substantially. The western half of South Dakota does not have good access to markets. The state is highly dependent on the highway system for transportation since the branch line situation is probably the poorest of the states we serve. Despite these obstacles, there are several subterminal-type operations in existence. Better utilization of existing facilities is at least a partial solution.

Bill S. 261 addresses two primary areas:

1. Plan the best locations for efficient, transient subterminal storage and high speed multiple car, unit train and truck loading facilities; and

2. Provide Federal financial assistance for the construction of such facilities when borrowers are unable to obtain adequate credit at reasonable cost under conventional loan arrangements.

A number of factors must be taken into account to evaluate the effect of S. 261. I shall identify them now briefly, and discuss any of them at greater length later, if you so desire.

(1) The unit train concept has proven to be the most efficient and effective way of moving commodities to market.

(2) As levels of production increase through irrigation and crop improvements, and new markets develop, the subterminal concept evolves naturally as it becomes economically feasible.

(3) Continued efforts to provide rail service to every shipper can only further aggravate the transportation problem and continue to disrupt the orderly marketing of products. Farmers have to absorb these higher transportation costs created by maintaining inefficient branch lines.

(4) Shippers located along branch lines will continue to resist the concept of subterminal shipping as long as any hope remains for the upgrading of their rail. As a result they delay development of alternative transportation methods.

(5) Many farmer-owned shippers have elected to take a positive approach to resolving the problem themselves. Several alternatives are available. They can formally merge or consolidate, organize a separate jointly owned firm, or merely reach a joint operating agreement and contract with each other for services.

It is important to point out that these joint ventures can include a combination of individually owned firms, corporations, cooperatives or others. Careful planning is necessary to avoid duplication of facilities, which creates an additional financial burden that farmers would eventually assume.

A specific example of this exists with the Rural Electric Cooperatives. A generating and transmission cooperative in Iowa is providing power to several municipalities in addition to local distribution cooperatives who serve farmers. In addition there is joint ownership of power generating units by cooperatives and public owned power companies.

(6) Firms on branch lines will continue an important function of receiving grain during the harvest period and feeding the terminal after the harvest is over. When they are willing to assume this role and discontinue resistance to the subterminal concept they can again become part of the mainstream. We have seen the continued growth and expansion of facilities that do not even have rail lines.

With these points in mind, I think it becomes evident that the only orderly way of marketing the farmers' products is through a system of cooperation between shippers. During harvest all facilities will receive grain. Once harvest is complete, the subterminal becomes the better market because of its strategic location and access to unit rates. As the shipping season progresses, farmers will tend to deliver their farm stored grain to the subterminal because of higher bids for their grain and availability of transportation. When the excess farm stored grain has been delivered to the subterminal, the surrounding elevators on branch lines become the main source of supply. They become the feeder units which take up the slack and enable the subterminal to ship unit trains on a year-round basis. This maximizes the use of rail cars and satisfies guaranteed minimum shipping requirements.

An orderly system of grain movement depends upon an orderly system of marketing. All of the firms involved in the subterminal concept must combine their merchandising and hedging efforts. This will enable them to maximize income from storage for facilities on the branch lines and schedule delivery dates to utilize the transportation equipment over the entire year.

This concept works best when all these factors are in place. I think most of the facilities are already in place in most of our district. Farmers have demonstrated that they are responsive to economic opportunities and will provide the capital to build facilities where they are needed. Sources of credit are available for economically feasible projects. I think it is important that all sources of commercial credit be exhausted before government becomes involved in financing. Government involvement should only be through a full faith and credit guarantee arrangement rather than direct loans.

We support the provisions of the bill which apply to the development of a plan. The location of existing facilities, coupled with economic feasibility, dictate the final plan. Management, financial resources and condition of the rail lines are contributing factors. The subterminal planning is complete in Iowa and is evolving in other areas.

Time is of the essence. Farmers and ranchers have always faced adversity of one form or another and have always met it with determination and progressive leadership. This has enabled them to survive in a highly competitive world. Farmer producers have demonstrated they are more responsive to change than the other segments of industry they have to deal with.

Through cooperatives, farmers currently have less than 10 percent of the grain export market. They are working hard to obtain the facilities and equipment needed to gather grain and deliver it to export markets.

Cooperatives have facilities and services that are designed for the benefit and convenience of the producer. Putting these facilities and equipment together have placed a great deal of pressure on cooperatives financial position. Expanding farmer owned export facilities and transportation equipment will add additional pressure.

A good example is a recent request from a large subterminal shipper for capital needs over the next five years. Their total projected requirements amount to \$20 million, of which \$8.3 million represents investment in transportation equipment.

The farmer-owners of this subterminal have provided the base capital necessary for normal marketing needs. Each year, it becomes more difficult for them to absorb the cost of providing capital for transportation.

There appears to be an opportunity to design the provisions of S-261 to assist farmers in providing the necessary capital for transportation through loan guarantees. Banks have access to loan funds, but elevators need someone to assume part of risk because of the millions of dollars necessary to acquire transportation and export facilities.

The ability to export grain is of primary importance to farmers. A recent study found that a 25 percent increase in farm exports would raise cash farm receipts 11.4 percent. Net farm income would be 51.2 percent higher. This illustrates the economic benefits that can accrue for our agricultural economy without massive or costly government programs.

Approximately one-third of all grain produced on U.S. farms is shipped abroad. Half our wheat is sold overseas. Half of our soybeans, half of our rice. One-third of our feed grains (mostly corn.) And yet, we still have surpluses of these commodities stored on our farms and unused production capacity in reserve. Further expansion of the export market is a key to raising farm income, while reducing our trade deficit.

Farm Credit system has recommended legislation to the Federal Farm Credit Board for aid in this export effort. This can be accomplished by amending the Farm Credit Act to allow Banks for Cooperatives to establish financial services that will facilitate the international transactions of farmer-owned cooperatives.

Your efforts to provide relief through S-261 are laudable but I must emphasize the magnitude and complexity of the problem. Storage space, hopper cars and upgraded rails are a necessity where economically feasible but they cannot provide the sought after relief alone.

An effective marketing system is one which ties the production, transportation, marketing and financing together in one cohesive function. There is as much need for efficient export facilities in the proper locations as there is for subterminal and transportation facilities. Most of all, we need to streamline and balance the marketing chain from the farmer to the foreign buyer.

In summary, we support financial assistance for planning where subterminal facilities are not already in operation.

We also support provisions to extend financial assistance for subterminal and export facilities, the purchase of railroad equipment and other related expenditures, only through the use of government guaranteed loan programs.

Should actual government loans be made, we believe stringent credit elsewhere tests should be required and the planning function should be utilized to prevent duplication of unneeded facilities and equipment.

That concludes a brief review of our position of S-261. If you have any questions, I shall be happy to answer them.

[The following position paper was furnished by Ben Radcliffe, president, South Dakota Farmers Union, see p. 51 for his oral presentation.]

NATIONAL FARMERS UNION TRANSPORTATION POLICY

(Excerpted from the 1979 policy statement as adopted by delegates to the 77th annual convention, Kansas City, Mo., March 11-14, 1979)

H. TRANSPORTATION

1. Roads

We encourage federal and state governments to consider increasing their share of funding of farm-to-market and rural roads from gasoline and other tax revenues. Funds should be expended to get the most roads for each dollar of expenditure, and priority should be given to roads that can help move our farm products to markets.

Federal, state, and local support must be supplied to provide an integrated transportation system to serve America's farmers, ranchers, and other rural residents.

2. Rail transportation

Efficient commodity transportation and storage systems are equally important to farmers as programs to improve prices and income. Farmers continue to experience shortfalls in both storage and transportation capacity. It is an ironic paradox that while we possess the production technology that makes U.S. producers the most efficient in the world, we have failed to solve the tragic economic results of a deteriorating rail system. The bumper crop of 1978 severely taxed both farm and off-farm storage, and unreliable and insufficient rail service, including boxcar shortages, has meant increasing reliance on more expensive truck transportation in the movement of grain. So-called "unit train shipments" of grain have created problems for widely dispersed cooperative and private elevator operations.

Abandonment of feeder lines has further complicated the problem of collection of grain for increasing "unit train shipments."

Railroads at any given time may have the necessary power and equipment for moving the Nation's agricultural commodities. However, they have never been able to efficiently or economically transport farm produce when wide dispersment of equipment is needed to reach country points of collection.

Rail movement of grain from country points of collection must be protected because of energy savings resulting in lower costs. Reliance on trucks would materially add to shipping costs, including greater expenditure for highway maintenance, and further weaken the ability of producers to profitably produce grain.

With anticipated expansion of the "unit train" technology, one answer in some areas may be fewer, larger collection points. While recognizing that trucks must continue to play an important role in moving grain to larger rail collection points, we urge that the railroads make maximum use of their facilities in reaching the small elevators.

Legislation before the Congress, modeled after the pilot program that has succeeded in Iowa, is designed to provide adequate bulk commodity and inter-multiple shipping facilities. The legislation, known as the "Agricultural Subterminal Storage Facilities Act," would provide (1) funds to finance a survey to determine the most desirable location of subterminals, (2) a means to assure, with government assistance, adequate financing of subterminals and equipment, including rolling stock, and (3) provisions to assure continued local control over the movement and storage of farm commodities.

Rail transportation can be further improved by such policies as the following:

- (a) "Unit train" loading should provide for pooling of grain shipments and not be limited to one-stop terminal loading;

- (b) Interstate Commerce Commission (ICC) regulations prohibiting railroad companies from waiving demurrage charges at terminal elevators so that boxcars do not become, in effect, storage facilities, thus reducing available rolling stock;

- (c) Rate regulations which incorporate provisions to protect smaller shippers from rate discrimination;

- (d) Statutory prohibition against ownership by railroads of non-transportation facilities with provisions for divestiture of existing arrangements covered by the prohibition;

- (e) A federally-guaranteed loan program to assist railroads to purchase suffi-

cient rolling stock to meet shipping needs, and to maintain trackage, including sidings;

(f) Statutory provisions to govern mergers or reorganization of railroad lines facing financial difficulty to assure that such mergers do not destroy competition or necessary service;

(g) A moratorium on all rail line abandonments until a formula for abandonment determinations is enacted by Congress which will weigh all economic and social costs prior to abandonment approval;

(h) In the event of abandonment of a branch line, transfer of the rail roadbed in rural areas should be to owners of adjacent property; and

(i) Continued regulation of the Nation's rail system to assure that rural areas will not be denied adequate service; that captive shippers are not charged excessively high rates; and that railroad trackage will not be denied adequate maintenance which could be operable under a system of guaranteed government loans, cooperative ownership, or other means.

3. *Truck transportation*

With fierce competition already in existence within the trucking industry, and and between truck and other modes of transportation, we seriously question whether deregulation will provide increased service or lower rates over the long run to the advantage of agricultural interests. Deregulations of trucks could result in cut-throat price-cutting that would force marginal railroads into bankruptcy. Further, rate wars would be ruinous to thousands of independent truckers who would lack the capital to stay in business in competition with the large trucking companies.

We propose that government regulations be amended to permit cooperatively-owned trucks to back-haul up to 50 percent of nonmember general merchandise. To save energy and lower shipping costs we urge all back-haul restrictions be eliminated on trucking regulated by the Interstate Commerce Commission.

We urge adoption of uniform state standards for truck weight and length limits, in conformity with federal standards.

Farm trucks used exclusively to transport produce of the farmer owner-operator should be excluded from federal highway use taxes collected by the Internal Revenue Service.

4. *Water transportation*

Slackwater navigation should be investigated as a means of low-cost transportation.

The Missouri River should be made navigable as far upstream as practicable.

5. *Air transportation*

We urge that feeder airline services to farm-rural communities be maintained to insure airmail and passenger service. Federal regulation of all airline services should be continued to protect public safety.

6. *Transportation committee*

We believe that due to the inability of our transportation system to move the output of our farms, ranches, mines, and forests, to markets and ports, and the expanded use of high energy-consuming methods, that in the future old, antiquated ideas must not restrict our planning. We need imagination, even perhaps a combination of government, cooperatives, and private enterprise systems of transportation using railroads, highways, and waterways.

We urge, therefore, the Farmers Union Board of Directors to establish a Transportation Committee to continue to review transportation policies.

STATEMENT OF ANDREW T. NELSON, MANAGER OF TRANSPORTATION RESEARCH,
GRAIN TERMINAL ASSOCIATION, ST. PAUL, MINN.

The Grain Terminal Association (P.O. Box 43594, 1667 North Snelling Avenue, St. Paul, Minnesota 55164) sincerely appreciates this opportunity to comment on S. 261, the Agricultural Subterminal Facilities Act of 1979. A regional cooperative, owned by 200,000 farmers and their families, GTA markets grain for 600 country elevators in Minnesota, the Dakotas, and Montana.

By rail, truck, or barge, that grain reaches the Twin Cities, Superior, Wisconsin, Duluth, Minnesota, Sioux City, Omaha, the Gulf, California, Oregon, Washington, and other export and domestic markets in the United States. GTA qualifies as a major user of these modes of transportation, and does agree that a critical shortage of transportation throughout 1978 and still continuing without

improvement in 1979 has unjustly deprived country elevators and farmers of deserved opportunities to market their crops.

Although its precise causes vary in many details from one time to another, the results of this shortage always come home to the country, to farmers, their nearby elevators in small towns, and local fertilizer distributors. Illustrated by many examples during this year and last, weeks can pass without either cars or trucks. In that predicament, our farmers don't necessarily choose to join in the congratulations on how much grain the U.S. exported last year.

Weather, the unpredictability of marketing cycles, years of legislative and economic research, not enough locomotives, too many cars in the wrong places, a shrinking car fleet, and the several other explanations about the transportation problem haven't yet solved it. Clearly this is not an effect brought on simply by one cause alone, but repeated year after year, the experience of insufficient transportation to move their grain from the interior has understandably invited a rising tide of resentment among our farmers.

These grain producing owners of ours have invested millions of dollars of theirs in improving existing GTA plants and facilities, expanding capacity to unload, store, or to load more trucks, barges, ships, and cars faster. Our farmer owners also have invested millions more in new GTA elevators, tracks, scales, truck and car dumps, at ports, at larger markets and processing centers and at country locations.

Unadjusted for inflation, the value of GTA plant and equipment directly pertaining to grain has been increasing for years at a rate of well more than \$10,000,000 annually. In addition, country cooperatives affiliated with GTA have authorized like expenditures. Construction of such centrally located country elevators is proceeding now in our states at carefully selected sites where transportation should be most assured in the future, but others already completed and able to ship large volumes have gone without cars or trucks enough to move the grain now in their bins. Dozens of these country elevators, both new and old, are "plugged". Obviously this history of continuing investment in terminal and subterminal elevators has increased the potential demand for transportation. Expansion and improvement of our own plant and equipment has kept pace with the growth of export demand and larger crops.

GTA and its affiliates have committed the needed resources, financial and managerial, and for the future stand ready to build more new subterminals, etc. any where in our states that a requirement for them appears. Funds for this purpose are already available from a number of sources. Where and when there is transportation enough to move our grain, we will respond appropriately with more such construction, although on past experience this alone has not sufficed to solve the critical, persisting shortages of cars, trucks, locomotives, and the other adjuncts of an efficient transportation network. GTA has moreover assumed very large monetary obligations to lease hundreds of rail cars.

In sum, in our opinion although S. 261 very generously recognizes the disturbing and most difficult crisis centering around the lack of transportation in the states where we operate, we do respectfully insist there is no brief for additional financing by government where so much has been done and will be accomplished in future within the demonstrated ability of these cooperatives to provide their own financing. Thank you very much for the consideration of our severe transportation problem and for your patience in listening to these remarks.

STATEMENT OF THOMAS FELDMANN, MARKETING MANAGER, WEST CENTRAL COOPERATIVE OF IOWA

My name is Thomas Feldmann. I am Marketing Manager for West Central Co-operative, with elevators at Ralston, Jefferson, and Boone, Iowa. All of these stations are along US Highway 30 and the Chicago and North Western mainline. Boone is approximately 45 miles east of Ralston, and Jefferson is approximately 18 miles east of Ralston. Our company is a farmer owned co-operative with approximately 3300 producer members.

We expect to handle approximately 20 million bushels of grain, primarily corn and soybeans, this crop year. Our shipments are approximately 90 percent by rail. We ship in 75 car unit trains principally to the Gulf export market.

Our trade territory includes an area from 60 miles west of Ralston, our western-most station, to 15 miles east of Boone, our eastern-most station, and 20 to 40 miles north and south of our stations.

We started shipping in 50 car units in 1971 and began using the 75 car units in 1972. In 1971, we handled six million bushels. Since September 1, 1978, through March 31, 1979, we have handled nearly 15 million bushels. Our bids to our farmer members are always at or near the top of the range of the bids published by the Iowa Crop and Livestock Reporting Board each day. The dividends on grain sold to the co-operative has averaged 5¢ per bushel for the last seven years.

In our opinion, the basic reasoning behind this bill S. 261 is to secure for producers the best possible price for their grain. To do this, every economic efficiency should be used. Rail transportation has an inherent economic advantage in moving large quantities over long distances. The railroad cannot efficiently compete with trucks on short, under 100 miles, and small, under 1000 tons, shipments.

While rail transportation is fuel efficient on large, long movements, it is wasteful on short, small movements such as many branch lines provide. No government rule or industry desire can make light density branch rail lines profitable. To continue to be operated they must be subsidized, either by the profitable segments operated by the same company, as is now the case, or by the government. If railroads were allowed to charge rates high enough to cover their costs of operating and maintaining branch lines, shippers would not pay these rates. They could truck to subterminals more economically.

It is our feeling that until railroads are allowed to abandon these unprofitable branch lines or charge enough to cover their costs on these branch lines we cannot have a healthy, profitable rail system in the Mid West.

With this in mind, the construction of subterminal elevators capable of loading large quantities at one time at well planned locations will enable the transportation cost savings to be returned to producers in the form of higher prices for their grain and still allow the railroads to operate profitably. Most Mid West railroads will agree that their most profitable grain business is unit trains.

However, these cost savings can be diluted if too many such facilities are built. The cost of building these facilities must be subtracted from the transportation cost savings, and duplication in an area or spacing too closely will increase the amount subtracted.

Iowa has achieved a tremendous benefit from the subterminal system built over the last seven years, but the savings would be greater and rail transportation more reliable if the planning done by Dr. Baumel of Iowa State University had been more closely followed. There have been too many subterminals built in Iowa, and farmers have to bear the cost.

We recognize that nothing is ever perfect, especially in economics, but it seems to us that a long range plan identifying the truly viable rail lines and the needed subterminal elevators located on these lines can save producers many wasted dollars and increase the prices they receive for their grain. For that reason, we believe this bill would be a definite benefit for farmers.



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